

ANNUAL ACCOUNTS
FOR THE YEAR ENDED
31st JULY 2002

LONDON SCHOOL OF ECONOMICS
AND POLITICAL SCIENCE

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REPORT OF THE CHAIRMAN OF THE COURT OF GOVERNORS

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This report accounts for the steps which the London School of Economics and Political Science took in the year 2001-02 to achieve its continuing mission "to be a world class university centre of the social sciences in the heart of London".

The current priorities outlined in the School's 2002 Operating Statement sent to HEFCE are:

To create an outstanding educational environment to ensure staff and students have an excellent experience and are presented with the best possible opportunities by:

- maintaining a strong sense of academic community and identity and developing in staff and students a professional capability of the highest order;
- creating an attractive physical environment and providing the best academic resources;
- improving the quality of teaching, learning and assessment and refining the process for assuring students and other stakeholders of quality;
- maintaining student mix while at the same time widening student access and developing participation of under-represented groups in all programmes of study.

To encourage and support continued intellectual development to drive the School's international reputation by:

- recruiting and retaining the best possible staff;
- promoting a role of guardian of the social sciences and consolidating expertise in key academic areas;
- encouraging academic innovation and developing strategic alliances.

To ensure that the School has sufficient financial and physical resources to enable it to maintain its international world-class reputation by:

- ensuring that the recurrent funding situation is stable;
- continuing to develop alternative income streams and fundraising;
- ensuring that funding is in place to provide sufficient accommodation to house the School's activities in line with planned controlled growth in student numbers.

To support the School's Governance and embed good management practices throughout the School by:

- consolidating recent streamlining of the School's committee structure;
- making available high quality advice and management information to support long-term strategic thinking;
- improving further the flow of information and enhancing communication across the School community.

I recorded last year that the post September 11th global situation had generated new and unforeseen uncertainties, but that it was too early to assess the implications for the School's plans. We have not been deflected from our priorities by international developments in the past year, indeed, student demand for places at the School remains extremely buoyant. But the external environment remains turbulent, and we continue to exercise vigilance in assessing the risks to our plans and interests.

FINANCIAL SITUATION

The School's key financial objective remains to achieve a general reserve surplus of at least 1% of turnover, for investment in core academic activities and the maintenance of infrastructure. The 2001/02 accounts show a general reserve surplus for the year of £1.448m which exceeds the target, and represents a significant improvement over 2000/01. The Student Residences Account is again showing a surplus, the result of lower interest rates, reductions in operating costs, and a welcome increase in vacation lettings business. The longer-term projections are also encouraging.

The 2002/03 recurrent grants were announced by HEFCE in March 2002, and the School was pleasantly surprised that the QR funding reflected the outstanding RAE results referred to below; £2.5m higher than in 2001/02. The Finance and General Purposes Committee (FGPC) was able to agree an additional allocation of £400k for expenditure from 2002/03, in addition to significant non-staff savings generated by Central Administration Divisions following a review of baseline School budgets. These resources were applied to a range of measures supporting the School's strategic academic objectives and to support essential new demands. The projected financial situation in the next 3-4 years is positive, but we must ensure that the surpluses are 'invested' to both maintain the School's academic reputation and generate further increased revenue streams in due course.

I reported last year that the FGPC was considering 10 year financial projections to help determine the strategic initiatives we need to take to ensure the School's financial health. To underpin this work the Committee has commissioned a 5 year School Business Plan that is being developed to cover issues such as the academic shape and size of the School, additional sources of income, the impact of academic growth on the range and numbers of academic and support staff and services, accommodation needs and marketing plans. When this is complete the 10-year projections will be developed further in conjunction with a more detailed estates strategy.

We have also considered a range of detailed measures to ensure the efficiency of the cost base. The outcome of the Research Transparency Exercise on which I reported last year confirmed our view that the School's current levels of overhead recovery for externally funded research are inadequate to meet the indirect costs involved. Consequently, the APRC is developing a cost allocation model to help determine the real cost of the School's activities and provide information to aid comparability and pricing.

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The annual report of the Audit Committee submitted to Council in November 2001 noted conclusions by the HEFCE Audit that the School was making excellent financial progress. The School's arrangements for best value continue to be based on five strands, involving the Academic Planning and Resources Committee (APRC), the work of the Purchasing Manager, the internal audit service, the work of the Energy Management Group and projects conducted by external consultants.

The APRC has formal responsibility for procurement policy and its implementation, as well as carrying out cyclical reviews of all organisational units. During 2001/2 the Committee adopted a formal policy incorporating a strategic approach to coordination of value for money activity, based on HEFCE guidance. It also carried out reviews of eight units and adjustments were made to resource levels as appropriate.

The past year has also seen a thorough reappraisal of the scope and potential of our additional revenue generating activities. Some of these are covered in more detail elsewhere in the report, but two key issues which clearly emerged were the need to ensure that the School's support services are geared up to supporting these increasingly lucrative activities, and the provision of a high quality, flexible conference facility is central to this aim.

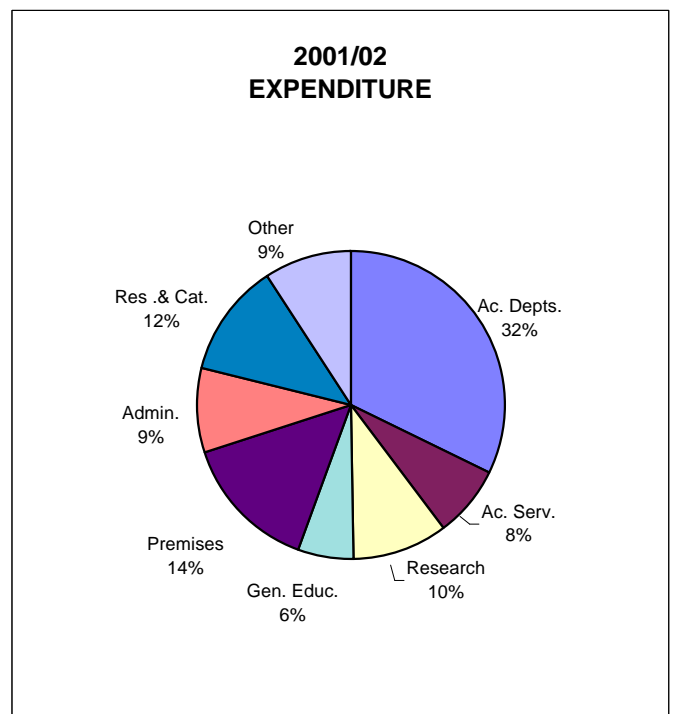
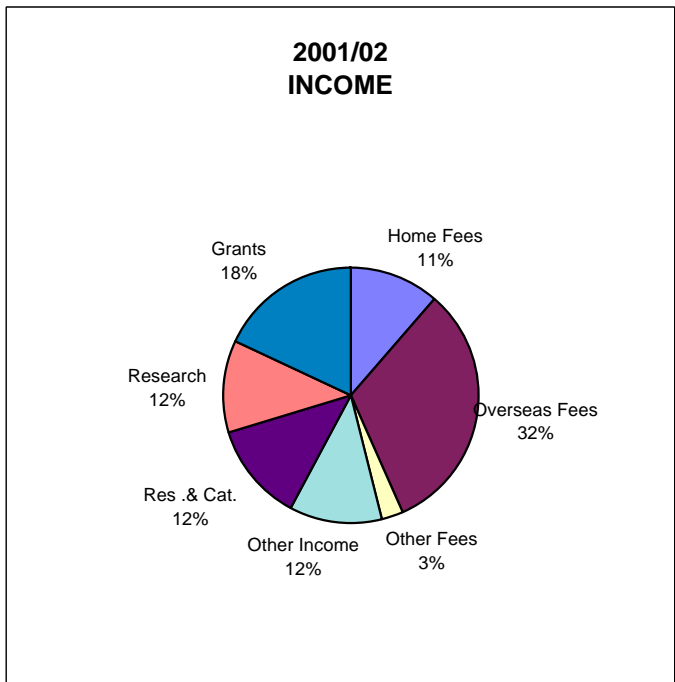
I reported last year on the launch of the £100m Campaign for LSE in May 2001, with its target, through the joint work of the LSE Development Office and the LSE Centennial Fund in New York to raise £15m. To date the total philanthropic income raised is £45m. The Campaign Counting Total for the Financial Year to 31 July 2002 was £7.423m and the cash gifts and pledges received was £6.039m. Fundraising progress in the USA was particularly encouraging, with the first \$1m gift being received, demonstrating the remarkable resilience of philanthropic giving in the US even in the light of September 11th.

STRATEGIC DEVELOPMENT

The work of the LSE's Governing Body, the Council continues to define the key issues, options and priorities that will help shape the future character of LSE over the next five to ten year period.

Over the past year the Futures Group of Council, a working group of students, staff and governors has been taking a longer term "blue skies" look at the School, its priorities and future direction. The Futures Group has carried out an extensive consultation programme with the School community on big picture issues, and discussions over the past year show an optimistic and encouraging picture.

The Council's Residential and "Awayday" meetings continue to stimulate strategic thinking which seeks to address the major challenges facing the School in the short to medium term. As ever the higher education context is a rapidly changing environment and the School aims to be as responsive and flexible as possible. To facilitate responsiveness and effective decision making, considerable streamlining and restructuring of the School committees has been undertaken in the past year.



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Improving the Student Experience

In light of a MORI survey conducted in 2000/01 we sustained our efforts to further improve the student experience through a range of measures which included:

- developing the training and monitoring of part-time teachers;
- providing resources to continue implementation of the policy of a maximum of 15 undergraduate students per class group;
- developing new technologies to support academics in teaching delivery and increase accessibility of teaching and administration information;
- adoption of an on-line format for termly student feedback on the teaching they have received in order to facilitate analysis and action;
- improvements to support services to students : such as language support, support for students with disabilities (for which additional HEFCE funding has been sought), optional courses in taught programmes, a student mentoring scheme; further improving the student:work station ratio.

The work put into improving information services to students and staff was attested by the award of the prestigious UCISA Award for Excellence 2002 for the LSEforYou information website portal. This facility provides LSE staff and students with access to a wide range of personal and public LSE services, and continues to expand rapidly.

The refurbishment of the campus environment has had and will continue to have a significant impact on the quality of the learning environment of the LSE. Most significantly work began on the Student Services Centre, which opened in the summer, and on pedestrianisation of the site.

Widening Participation

The School continues to focus a significant amount of energy into its programme of widening participation, aimed at encouraging sixth form students from state schools or colleges to look upon the LSE as a place to pursue their higher educational interests. General activities such as Saturday Schools, Summer and Winter Schools and liaison with sixth form institutions are aimed at raising the aspirations of state sector students. More specific projects include open days, tutorial support, a student shadowing scheme and financial support for needy students. Future funding for the School's widening participation programme remains uncertain. HEFCE funding is in place for a number of short-term contracts but the School relies heavily upon the generosity of donors for many ongoing schemes. In Summer 2004, HEFCE is planning alternative means of funding specific projects with the aim of satisfying government targets but as yet the details are unknown.

Developing the Staff Experience

Human Resources and improving the staff experience remain a key strategic priority. Recruitment of staff of international quality is a pre-requisite for research excellence, teaching quality, achieving RAE success and attracting students and the School aims to recruit and retain high quality staff by developing an holistic and integrated approach to Human Resources that covers both academic and academic support staff.

The Human Resource Strategy was a key topic discussed at the September 2001 Council Residential meeting. Supplementing academic salaries at all levels was considered to be an overriding strategic priority. Despite the current limitations on national pay scales, the School should be in a position in the long term to continue to offer and develop remuneration and benefits packages which enable LSE to continue to attract academic staff of international ranking. The School operates in local, regional and international markets and must design innovative remuneration and benefit packages to compete with international universities which receive significantly more funding than UK institutions. Despite some local difficulties the School remains in a relatively enviable position regarding recruitment and retention. The School is continuing to develop its Human Resource Strategy to complement other School strategies and to comply with the HEFCE's initiative Rewarding and Developing Staff. The School has already been allocated £1.7m over three years as a result of the HEFCE initiative Rewarding and Developing Staff and will seek to secure additional funding in subsequent years.

Improving the Built Environment

Improvements to the estate in 2001/2 has brought us markedly closer to our goal of providing a campus compatible with LSE's intellectual status and pulling away from the 'intellectual slum' description applied in the past. Chief among those improvements is the completion in July of this year of the new Students Service Centre situated on the ground floor of the Old Building. This new multi-functional development will provide students with a spacious, modern and welcoming environment to seek advice, information and support for all aspects of their studies. As well as improving the student experience at LSE, the Student Services Centre also benefits the wider estate strategy in freeing up valuable office space elsewhere in the School with the Graduate Registry, Undergraduate Admissions Office and Exams and Ceremonies Office. The redevelopment was made possible in part by a grant from 'The Atlantic Philanthropies' support for the Campaign for LSE.

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Bill Clinton gave a lecture in December 2001 as part of the Global Dimensions research programme.

In my last report, I was able to comment on the collective effort that brought about the completion of the Lionel Robins Building Redevelopment which included the refurbished Library. The success of this development has resulted in the Library becoming one of the busiest services of its kind in the country and received praise from students, staff and visitors alike.

Summer 2002 saw the beginning of Phase One of the initiative to renovate the area outside of the library building. This covers the area from Portugal Street to St Clements Lane Ramp and involves replacing the existing asphalt material with a new plush surface of granite and stone. This is another project moving forward because of the Campaign for LSE. An anonymous benefactor is also supporting the development and has asked that the area be renamed the John Watkins Plaza, in honour of the late Professor of Philosophy. By the completion of this report, Phase Two of the initiative should be underway, adding, with the permission of Westminster Council, a café area, benching, plants and a canopy to the area.

Summer 2002 has also seen the realisation of the School's Environmental Project with the pedestrianisation and general upgrading of Clare Market. The project will begin again in summer 2003 to ensure a modern, 21st Century appearance throughout the campus. Smaller but equally important engineering and building work has taken place around the School in 2001/2 to ensure safety standards and the needs of disabled students are met.

ACADEMIC DEVELOPMENTS

Curriculum

As the scope of the social sciences continues to adapt to world events, we are strongly placed to identify areas of development and build new academic initiatives through the work of groups such as the Academic Planning and Resources Committee, the Group on Academic Initiatives, and the Alliances Steering Group. The School continues to develop innovative programmes drawing on the School's strengths. New Masters programmes approved during the session included MPA in Public and Economic Policy (also to be available as a two-centre MPA with Columbia University, New York). A range of new taught research degrees was also approved, reflecting the ESRC's new requirements for research training in the first year of a doctoral programme. After many years participation, the School decided to withdraw from the University of London Intercollegiate LLM degree, in order to exploit the opportunities offered by a college-based degree.

Interdisciplinary programmes continue to be developed with the first intake of students on the MSc Human Rights programme arriving in October 2001. The development of such courses not only satisfies market demand for new areas of expertise, but also secures a degree of flexibility to accommodate the interests of new and existing academic staff and ensure the School retains its position as a key institution for the furtherance of social and public policy.

We have also continued to take steps to implement the strategy proposed by the Group chaired by Professor Howard Glennerster to raise the profile of the School's intellectual activities in the field of management studies. A Group of Conveners from key departments chaired by Professor Peter Miller is taking this project forward with the strong personal encouragement of the Director.

Non Standard Teaching Programmes

To complement existing and new initiatives in mainstream curriculum development we have continued to consider the expansion of our extra curricular teaching programmes. Working in close liaison with Enterprise LSE, LSE Executive Education specifically explores this area and makes recommendations for potentially rewarding teaching programmes in the business and corporate sector.

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To support existing and new developments in this area, the Finance and General Purposes Committee has approved the expenditure of £500,000 on a new facility to provide flexible high quality conference space. Suitable accommodation has been identified in Tower Two and detailed planning and implementation of this exciting new project is progressing. The assistance of Mr Stephen Barclay, a member of the Court of Governors, and Ms Rosemary Mathewson, Associate Dean Executive Programs, Leonard N. Stern School of Business, New York University, has been particularly valuable.

In the past year the School has successfully co-hosted the first intake of 28 MBA students on the TRIUM programme run with Stern Business School, New York University and HEC Paris. Numbers are expected to increase for the 2002/3 intake as TRIUM establishes itself as a premier world-class executive MBA.

Alliances

Further development of partnerships with other institutions has been a strategic objective of the School for several years as a means of academic development and income generation.

The Alliances Steering Group tasked with progressing the School's alliances has overseen a number of significant developments with Columbia University. In May the School co-hosted the State of the Planet Conference at Columbia, along with Harvard University and UNESCO. As mentioned above, the School will launch its first dual degree with Columbia, the MPA (Master of Public Administration), in the autumn of 2002 with first intake to take place in autumn 2003. A Joint Environmental Masters plan has also been launched, whereby students can sign up for the MPA in Earth Systems Science, Policy and Management at Columbia and either the MSc Environmental Assessment and Evaluation or the MSc Environment and Development at LSE. Individual departments at the School have been working with colleagues at Columbia on a range of projects including joint research, staff and student exchange schemes and joint teaching programmes. The alliance is now well established with further developments planned.

Research

The School achieved an outstanding rating in the 2001 Research Assessment Exercise (RAE) and with the exception of one unit of assessment we achieved the top grades of 5 or 5*. Seven of the thirteen units of assessment exceeded their rating in the 1996 RAE. As a result, out of 130 universities in the UK, the School was rated above Oxford and ranked second only to Cambridge. This outstanding achievement secured an additional £2.9m from HEFCE for research in 2002/3.

Our main research objectives continue to be to maintain research standards and to monitor opportunities to undertake collaborative research with other institutions. The completion of a comprehensive Research Strategy for the School will further stimulate networking and interdisciplinarity which will in turn support corporate partnering opportunities to translate knowledge into commercial value.

The School's excellence in research is supported by high quality administrative support and in November 2001 the School was awarded the Economic and Social Research Council's (ESRC) highest grade of assurance for the administration of research funds, following an audit to monitor the School's procedures for allocating research awards administered by the ESRC.

Last year I referred to the establishment of the Applied Interdisciplinary Research Laboratory (AIREAL), which has now begun to house its first tenants, although the full complement of four floors of dedicated space will not be on stream until mid 2003. Funded by £6M from HEFCE's Science Research Infrastructure Fund, AIREAL will house and manage small-scale group-based applied research, some of which it is hoped will have the potential for commercial development. This is an ongoing objective for research identified in the Strategic Plan and will complement the facilities for larger scale research provided in the Lionel Robbins Building.

A number of very substantial research grants were awarded during the year including a joint award from the Soros Foundation and the FCO to Professor Mary Kaldor for £1,049,000 for faculty development scheme in the Balkans, a joint award from UBS Asset Management Ltd of £700,000 to Professors David Webb and Besley for a pension research programme, and an award of £845,100 to Dr R Leonardi from the Piedmont Regional Authority to investigate structural development in that region.

ENTERPRISE LSE (ELSE)

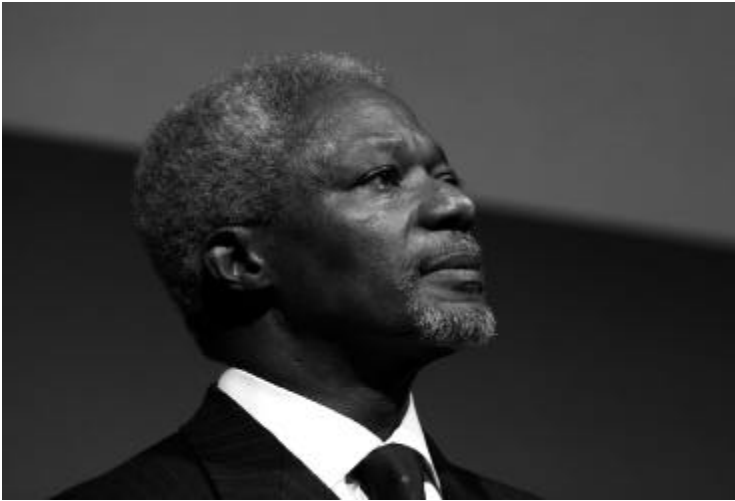
ELSE, the School's consulting and commercial arm, has had another successful year with the ELSE trust making a donation to the School of £315k from profits for the last financial year. By the end of 2001-2 financial year, Enterprise LSE Ltd. had brought in a cumulative total of over £10 million, enhancing academic salaries by £8 million and returning £1.5 million in unencumbered funds to the School in profits on its activities and ventures since 1995.

Enterprise LSE has now worked with over 100 academic faculties, and consulted widely with the UK government departments and regulatory bodies, as well as numerous foreign states and regions around the world. In the past year, Enterprise LSE also worked with many major corporations on issues such as Corporate Social Responsibility, impact of September 11th, globalisation, and credit risk assessments. The Global Dimensions programme, managed by Enterprise LSE on behalf of the Centre for the study of Global Governance, also hosted Bill Clinton, Kofi Annan, Ernesto Zedillo, Gro Harlem Brundtland and Supachai Panitchpakdi, and delivered high-level roundtables in Hong Kong, Shanghai, New Delhi and at the LSE. The executive education portfolio also expanded greatly with wide-ranging seminars in London, Madrid, Bilbao and Moscow.

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In February 2002, Kofi Annan, UN Secretary-General urged an LSE audience towards a 'coalition for responsible prosperity' in another Global Dimensions lecture.

Enterprise LSE also created and managed many of the LSE's new initiatives that interact with the private sector, such as Fathom, Unext, the Moving Markets corporate consortium and LSEjobs, a direct recruitment service exclusively for students and alumni of the LSE, conceived as part of the School's mission to create lifelong mutually beneficial relationships with current students and alumni.

GOVERNANCE AND COMPLIANCE

The governance of the School continues to be the subject of review and reform to streamline the decision making process and improve our level of expertise and capacity to deal with new challenges and recurring issues quickly, decisively and transparently. As a result of the School's internal commitment to improving governance and through external guidance there were a number of significant achievements in this area during 2001/2.

Council established the Effectiveness Review Group (ERG) in March 2001 to consider a wide range of issues relating to its effectiveness. The ERG's first report to Council in November 2001 covered a broad range of issues including selection and induction as well as modes of communication between the Council and the School to help ensure that Council fulfils its strategic role as effectively as possible.

As a result of the ERG's report a number of practical measures have been implemented. Early development of a Council Information website has been completed to improve the flow of information between Council and its Committees and to increase transparency in the decision making process. Council members can now access its own papers and the papers of key School Committees via the School's website. Council members and Governors now receive a regular Briefing to ensure members are kept abreast of major developments at the School and within the higher education sector as a whole. The School has established a new system to link individual lay members of Council with academic departments to encourage dialogue and offer members of Council an insight into the key concerns of departments and the resources required to deliver first class teaching and research.

In January, the Academic Board approved a range of proposals from the Committees Project Team for streamlining the academic decision making processes and improving their efficiency. Nearly 20 committees were swept away, to be replaced by a structure of 5 smaller, strategic committees reporting to the Academic Board, each chaired by a Deputy Director and mirroring their areas of functional responsibility, with a small number of specialist sub-committees to consider matters such as new programmes and courses, each with significant powers of resolution to speed up decision making. A new Teaching Learning and Assessment Committee has responsibility to develop strategy and policy for teaching, the curriculum, research training and quality assurance, while for the first time we have a Student Affairs Committee responsible for overseeing the enhancement of all aspects of the student experience within the School. These changes link senior academic office holders to the bodies with strategic responsibilities more closely, free the Academic Board to concentrate on considering all major issues of general policy affecting the academic life of the School, and reduce the call on valuable academic time for service on committees. Complementing the committee structure is a range of less formal Consultative Forums and User Groups to and from which issues of policy and strategy may be referred by or to a parent committee.

In the area of compliance, a review of the register of interests was completed in 2001/2. Work continues to progress towards full compliance with the Freedom of Information Act with a publications scheme targeted for completion in 2003 and a Model Action Plan prescribed time limits.

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Further measures have been taken to embed risk management into the School's culture and in June 2002 Council approved a new Risk Management Statement and a Risk Management Strategy for identifying and dealing with risk. A Risk Register was produced in 2002 to ensure transparency of risk assessments.

EXTERNAL RELATIONS

Marketing and Public Relations

The importance of marketing cannot be underestimated and will only increase with competition in the sector. LSE must remain focused on its marketing strategy while looking for new areas of expansion. The LSE brand name is highly regarded worldwide and we are seeking to capitalise on that.

Last year I reported that structural gaps were identified in market research and relationship marketing and market planning. Clear objectives have been established and we are working towards them. The strength of LSE's reputation is demonstrated through high demand for student places, innovative academic developments and in the School's ability to recruit and retain the best staff at all levels.

Alumni Relations

LSE Alumni represent a growing global market segment favourably disposed towards the School, such as image promotion, student recruitment and careers advice. At its meeting in April 2002 the Council approved an Alumni Relations Strategy for the School which seeks to identify the relationships that will best satisfy the wide diversity within the alumni body. The strategy adopted a grass roots approach which seeks to facilitate an early and long term partnership between the School and its Alumni through the development of alumni networks and events.

To maintain this resource an ongoing programme of two way communications is involved, incorporating regular invitations to alumni and School events, regular mailings of the LSE Magazine and the development of alumni networks and the Alumni Relations Committee continues work to consider how best to develop our relationship with all LSE Alumni.

Fundraising

Fundraising activities are vitally important in enabling the School to increase its level of academic excellence and provide a first class learning environment to its students. Private finance is essential in filling the gap that exists between the limit of government funds and the amount required for LSE to reach its academic potential and provision of first class learning facilities.

I reported last year on the launch of the £100m Campaign for LSE in May 2001, with its target, through the joint work of the LSE Development Office and the LSE Centennial Fund in New York to raise £15m. To date the total philanthropic income raised is £45m. The Campaign Counting Total for the Financial Year to 31 July 2002 was £7.423m and the cash gifts and pledges received was £6.039m. Fundraising progress in the USA was particularly encouraging, with the first \$1m gift being received, demonstrating the remarkable resilience of philanthropic giving in the US even in the light of September 11th. Also, in 2002, a £1m donation from Hong Kong was confirmed. The Director undertook further successful fundraising trips: destinations included Canada, Germany, Japan and Taiwan, together with talks with the top 100 world banks.

Distinguished Visitors

We welcomed many distinguished visitors including Kofi Annan, Tony Blair, Bill Clinton, Helen Clark (Prime Minister of New Zealand), Zoran Djindjic (Prime Minister of Serbia), Paavo Lipponen (Prime Minister of Finland), Poul Nyrup Rasmussen, former Danish prime minister, Gavyn Davies, Chairman of the BBC, Dr Stanley Fischer, former first deputy managing director of the International Monetary Fund who gave three Lionel Robbins Memorial Lectures, Bianca Jagger, environmental campaigner, Richard Lambert, former editor of the Financial Times, Pascal Lamy, European Commissioner for Trade, Jean Lemierre, President of the European Bank for Reconstruction and Development, Joseph Stiglitz, Nobel Prize Winner, and George Soros.



In February 2002, New Zealand Prime Minister Helen Clark talked about her country's agenda for change

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*In March 2002, alumnus George Soros was part of a panel debating global economic change at a public event co-hosted with **The Economist**. In October 2002, he also took the stage of the Peacock Theatre as the first guest in a series of Director's Dialogues with Professor Giddens.*

CONCLUSION

For all the present uncertainties surrounding the global situation, and indeed the future of Higher Education in the UK, the School is currently in a very strong position to face the future. The power of the LSE brand name is internationally attested. We are more financially secure than for some time; as confirmed by the RAE our intellectual dynamism and creativity continue unabated, broadened by developing alliances; and the full potential of our challenging but vibrant inner-city location is being increasingly realised. The quality of the experience we offer our students and staff is progressively being enhanced. In many areas, the objectives which the School has set for itself are being achieved.

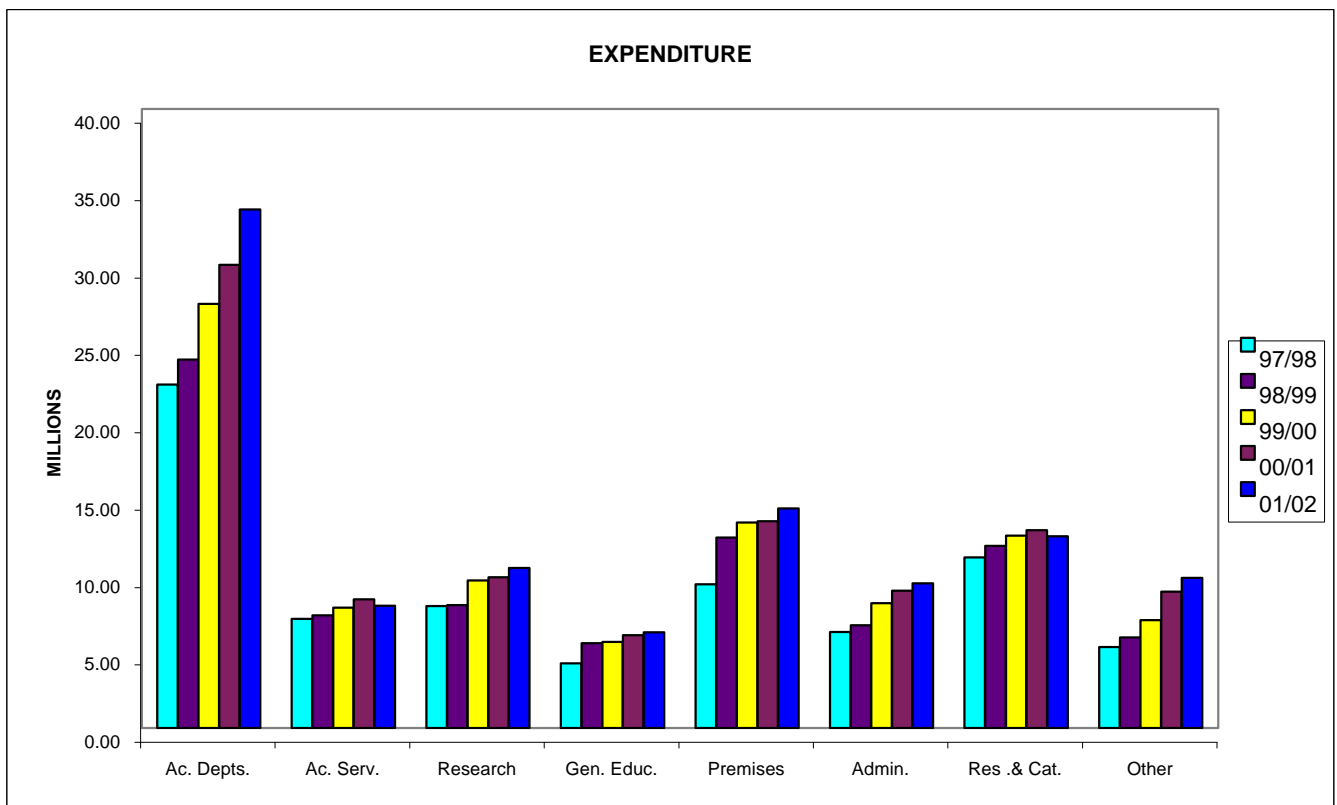
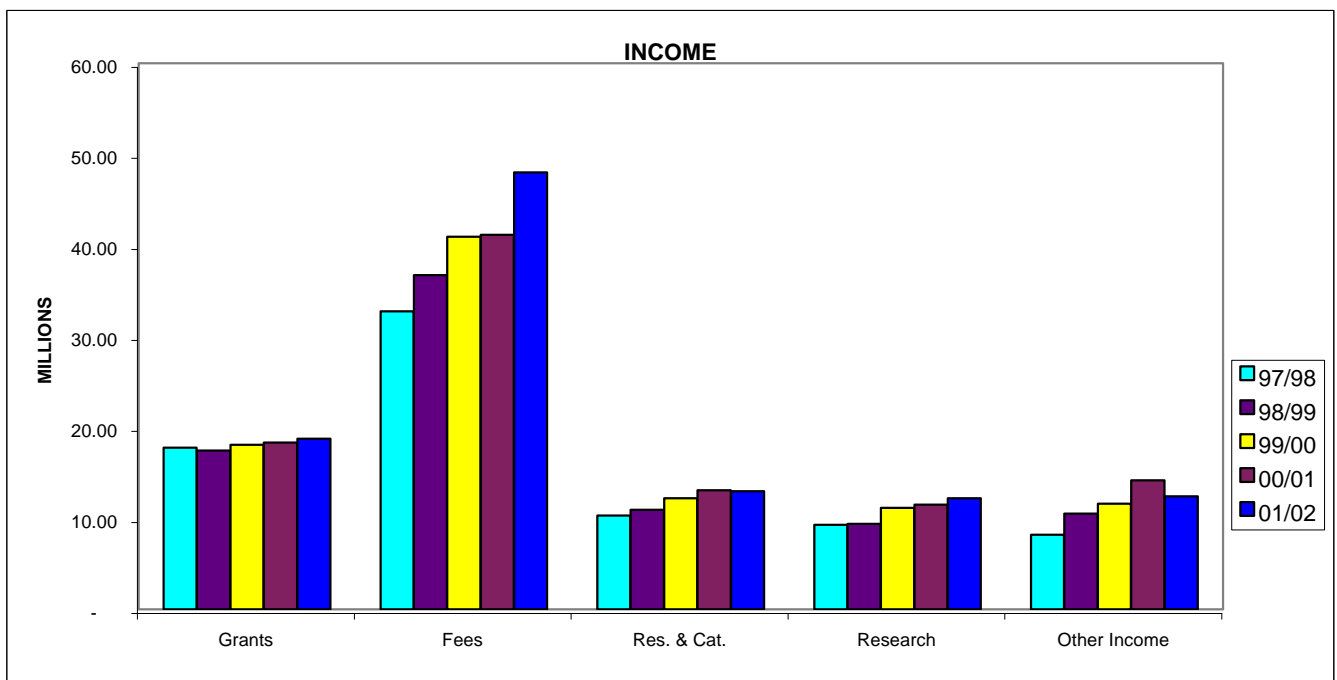
As usual, I would like to acknowledge the contribution of the many people who have contributed to the School's achievements in the past year, and in particular the Director, Anthony Giddens, whose remarkable vision and enthusiasm have continued unabated; the Vice-Chairmen of the Court, Bernard Asher and Bryan Sanderson; the Deputy Directors, Judith Rees, Ray Richardson and until 1 September 2002 Stephen Hill (now Principal at Royal Holloway & New Bedford College) and thereafter Henrietta Moore; the Secretary & Director of Administration, Christine Challis and her colleagues; the Governors and staff of the School, our many friends and alumni and of course, the students.

Anthony Grabiner
December 2002

FIVE YEAR ANALYSIS OF INCOME AND EXPENDITURE

For the Year Ended

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REPORT OF THE DIRECTORS

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PRINCIPAL ACTIVITIES

The principal activities of the School in the year under review were those of Higher Education and Research, together with such other activities as are thought necessary to facilitate the above objectives. Such additional activities include the provision of catering and accommodation services together with the publication of certain academic journals.

REVIEW OF THE YEAR AND FUTURE DEVELOPMENTS

A review of the events of the year, together with a summary of expected future developments are given in the Report of the Chairman of the Court of Governors, on pages 3-10 of these accounts.

FIXED ASSETS

The market value of the School's Land and Buildings is substantially higher than the historical cost shown in the Balance Sheet. The buildings were insured on a cost reinstatement basis at the [year end of £346M \(Net Book Value £139M\)](#).

EMPLOYMENT

The School aims to be an Equal Opportunities Employer.

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

PAYMENT OF CREDITORS

It is the School's policy to obtain the best terms for all business and, thus, there is no single policy as to the terms used. In agreements negotiated with suppliers, the School endeavours to include and abide by specific payment terms.

DIRECTORS

The Directors of the School are shown at page 43.

ACCOUNTING POLICIES

The School is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 1988. Accordingly, the School is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes.

The School receives no similar exemption in respect of Value Added Tax.

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

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

(a) Basis of Accounting

The consolidated financial statements have been prepared on the historical cost basis of accounting and in accordance with applicable Accounting Standards.

The Council believes the School to be a going concern and have therefore prepared the Accounts on that basis.

(b) Format of the Accounts

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

(c) Basis of Consolidation

The consolidated financial statements consolidate the financial statements of the School and all its subsidiary undertakings for the financial year as set out in Note 39.

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

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

(d) Income and Expenditure Account

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

(e) Land and Buildings

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

The Estates Management Committee have reviewed the usable lives of the School's buildings in line with FRS11 and the depreciation policy is based on this assessment.

Freehold buildings are depreciated over the remainder of their useful economic lives which range between 14 and 80 years. Leasehold buildings are amortised over the remaining period of the lease.

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

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable, or where an asset is deemed to have an economic life in excess of 50 years.

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

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

ACCOUNTING POLICIES

(f) Furniture and Equipment

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

Capitalised equipment is stated at cost and depreciated over its useful life which varies between 4 and 19 years.

(g) Finance Leases

Fixed assets held under finance leases and the related lease obligations are recorded in the Balance Sheet at the cost or fair value of the leased assets.

(h) Operating Leases

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

(i) Hambros Finance Lease

The School's liability under this finance lease is calculated as the principal plus any accrued interest as at the year end. The annual interest charge on the lease is calculated as the interest element of the rental paid during the year plus any accrued interest.

(j) Stock

Stocks are valued at the lower of cost and net realisable value.

(k) Investments

Investments within Fixed Assets that are listed on a recognised stock exchange are carried at market value. Those that are not listed on a recognised stock exchange are carried at historical cost less any provision for impairment in their value.

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

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

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

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

All investment income and realised gains/losses on disposals of investments arising from unrestricted funds is dealt with in the Income and Expenditure Account. To the extent that the School wishes such income to accrue to the funds from which they arise, it is transferred to those funds after the net surplus/(deficit) for the year has been calculated.

(l) Foreign Currency

All balances held at the year end denominated in a foreign currency are included at the exchange rate ruling at the year end.

ACCOUNTING POLICIES

(m) Pensions

The School participates in the Universities Superannuation Scheme (USS) and Superannuation Arrangements for the University of London (SAUL). Both are defined benefits schemes and are externally funded and contracted out of the State Earnings Related Pension Scheme. Both funds are valued every three years by a professionally qualified independent actuary using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuary. In the intervening years, the actuary reviews the progress of the scheme. Pension costs are assessed in accordance with the advice of the actuary, based on the latest actuarial valuation of the scheme, and are accounted for on the basis of charging the cost of providing pensions over the period during which the school benefits from the employees' services.

The Income and Expenditure Account reflects the contributions payable as stipulated by the pension scheme trustees.

(n) Cash Flows and Liquid Resources

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

Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and loan stock held as part of the School's treasury management activities.

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

For the Year Ended

31ST JULY 2002

		2002	2001
	NOTES	£'000	£'000
INCOME			
Funding council grants	1	18,748	18,312
Tuition fees and education contracts	2	48,007	41,150
Research grants and contracts	3	12,205	11,494
Other income	4	23,808	22,596
Endowment and investment income	5	1,576	3,107
Total income		<u>104,344</u>	<u>96,659</u>
EXPENDITURE			
Staff costs	6 & 8	56,609	51,723
Other operating expenses	8	39,923	39,166
Depreciation	8	2,810	2,122
Interest payable	7 & 8	4,173	4,815
Total expenditure		<u>103,515</u>	<u>97,826</u>
Surplus/(deficit) on continuing operations after depreciation of tangible fixed assets at cost and disposal of assets but before tax		829	(1,167)
Exceptional item	18	-	1,560
Taxation		-	-
Surplus on continuing operations after exceptional item, depreciation of assets at cost, disposal of assets and tax		<u>829</u>	<u>393</u>
The surplus for the year has been allocated as follows ;			
General endowments		(539)	186
Reserves	30		
General reserve		1,448	209
Committed balances		(577)	(669)
Student residences		494	634
Central catering		3	33
		<u>829</u>	<u>393</u>

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

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of these financial statements. Of the total profit for the year of £829,000, a profit of £791,000 was dealt with by the Company.

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the Year Ended

31ST JULY 2002

	NOTES	2002 £'000	2001 As restated £'000
Surplus on continuing operations after depreciation of assets at cost, disposal of assets and tax		829	393
Revaluation of general endowment investments		-	(516)
Revaluation of investments within fixed assets	29	(1,351)	(1,327)
New endowments	27	2,906	2,841
Revaluation of endowment asset investments	27	(4,712)	(2,483)
Endowment investment income for the year	27	1,044	1,294
Endowment expenditure for the year	27	(3,810)	(3,768)
Total recognised gains and losses relating to the period		<u>(5,094)</u>	<u>(3,566)</u>
Prior year adjustment	43	3,290	-
Total Recognised gains and losses since last Financial Statements		<u><u>(1,804)</u></u>	<u><u>(3,566)</u></u>
Reconciliation			
Opening reserves and endowments		78,441	
Total recognised gains and losses for the year		(5,094)	
Closing reserves and endowments		<u><u>73,347</u></u>	

The 2001 figures have been restated following the prior year adjustment as described in note 43.

BALANCE SHEETS

As at

31ST JULY 2002

		Group 2002	School 2002	Group 2001 As restated	School 2001 As restated
	NOTES	£'000	£'000	£'000	£'000
Fixed Assets					
Tangible assets	20	139,474	138,689	137,007	136,333
Investments	21	<u>6,805</u>	<u>6,914</u>	<u>8,978</u>	<u>9,095</u>
		<u>146,279</u>	<u>145,603</u>	<u>145,985</u>	<u>145,428</u>
Endowment Assets	21	34,763	34,763	39,874	39,874
Current Assets					
Stock		71	71	79	79
Debtors	22	10,138	11,136	10,862	12,771
Cash at bank and in hand	23	<u>7,179</u>	<u>6,647</u>	<u>1,527</u>	<u>655</u>
		17,388	17,854	12,468	13,505
Creditors: amounts falling due within one year	24	(23,756)	(23,938)	(21,147)	(21,981)
Net current liabilities		<u>(6,368)</u>	<u>(6,084)</u>	<u>(8,679)</u>	<u>(8,476)</u>
Total assets less current liabilities		174,674	174,282	177,180	176,826
Creditors: amounts falling due after more than one year	24	(64,567)	(64,567)	(64,775)	(64,775)
NET ASSETS		<u>110,107</u>	<u>109,715</u>	<u>112,405</u>	<u>112,051</u>
Deferred capital grants	26	<u>36,760</u>	<u>36,760</u>	<u>33,964</u>	<u>33,964</u>
Endowments					
Specific	27	28,916	28,916	33,488	33,488
General	28	5,847	5,847	6,386	6,386
		<u>34,763</u>	<u>34,763</u>	<u>39,874</u>	<u>39,874</u>
Reserves					
Revaluation reserve	29	-	-	1,351	1,351
General reserve	30	38,584	38,192	37,216	36,862
		<u>38,584</u>	<u>38,192</u>	<u>38,567</u>	<u>38,213</u>
TOTAL		<u>110,107</u>	<u>109,715</u>	<u>112,405</u>	<u>112,051</u>

The financial statements on pages 13 to 36 were approved by the Court of Governors on 12th December 2002 and were signed on its behalf by:

CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended

31ST JULY 2002

		2002	2001
	NOTES	£'000	£'000
Cash flow from operating activities	31	10,209	6,088
Returns on investments and servicing of finance	32	(2,273)	(2,666)
Taxation		-	-
Capital expenditure and financial investment	33	(2,364)	(8,736)
Management of liquid resources	34	(6,000)	6,000
Financing	35	(235)	(903)
Decrease in cash in the period		<u>(663)</u>	<u>(217)</u>
Reconciliation of net cash flow to movements in net funds/debt			
Decrease in cash in the period		(663)	(217)
Cash inflow from new secured loans		(2,150)	(1,400)
Cash outflow/(inflow) from liquid resources		6,000	(6,000)
Changes in net debt resulting from cash flows		2,338	2,224
		<u>5,525</u>	<u>(5,393)</u>
Movements in net funds in period		5,525	(5,393)
Net debt at 1 August		(58,603)	(53,210)
Net debt at 31 July		<u>(53,078)</u>	<u>(58,603)</u>

NOTES TO THE ACCOUNTS

For the Year Ended

31ST JULY 2002

		2002	2001
	NOTES	£'000	£'000
1 FUNDING COUNCIL GRANTS			
From the HEFCE			
Block Recurrent		17,226	17,177
Library Grants		234	316
6th Form Summer School		62	85
Higher Education Innovations Fund		191	86
Teaching Room Improvement Project		-	240
Recruitment & Retention		370	-
Other Specific Grants		205	99
Deferred Capital Grants Released in Year	26	<u>220</u>	<u>57</u>
		18,508	18,060
From the Joint Information Systems Committee		240	252
		<u>18,748</u>	<u>18,312</u>
2 TUITION FEES AND EDUCATION CONTRACTS			
Tuition Fees :-			
Home/EC Students		11,967	10,355
Overseas Students		33,335	28,617
Short Courses		2,607	2,099
Examination and Other Fees		98	79
		<u>48,007</u>	<u>41,150</u>
3 RESEARCH GRANTS AND CONTRACTS			
Research Councils		3,163	2,561
Government Departments		1,578	1,501
Charities		1,480	1,232
European Community		1,082	1,140
Other Outside Bodies		1,707	1,687
Specific Endowments	27	1,353	1,647
Research Overheads		1,842	1,726
		<u>12,205</u>	<u>11,494</u>
4 OTHER INCOME			
Residences and Catering		12,966	13,071
Rental Income		1,468	1,771
Overheads		165	152
Publications		737	665
Library		554	575
External Study		1,203	998
Consultancy Services		3,054	2,535
VAT Partial Exemption Scheme		621	395
Graduate Office Administration Fees		355	238
Departmental Outside Funds		1,489	1,696
Insurance Receipt		50	240
Research Committed Balances		598	171
Donations towards Estates Projects		252	-
Deferred Capital Donations	26	218	-
Sundry		78	89
		<u>23,808</u>	<u>22,596</u>
5 ENDOWMENT AND INVESTMENT INCOME			
Transferred from Specific Endowments	27	2,152	1,811
Donations for General Purposes	28	1	6
Investment of General Endowments			
Interest and Dividends Receivable	28	177	168
Profit/(Loss) on Revaluation	28	(556)	144
Investment of General Funds			
Interest and Dividends Receivable		632	608
Profit/(Loss) on Revaluation		(830)	370

1,576

3,107

NOTES TO THE ACCOUNTS (CONTINUED)

For the Year Ended

31ST JULY 2002

	2002	2001
	£'000	£'000
6 STAFF COSTS		
Total staff costs for the year were:-		
Wages and Salaries	48,117	43,845
Social Security Costs	3,817	3,619
Other Pension Costs	4,675	4,259
	<u>56,609</u>	<u>51,723</u>

The average weekly number of persons employed by the School during the year expressed as full-time equivalents was:-

	2002 Number	2001 Number As restated
Academic Departments	678	636
Academic Services	188	191
Research Grants and Contracts	246	224
General Educational Expenditure	7	5
Premises	79	76
Administration and Central Services	250	231
Staff and Student Facilities	20	19
Other Operating Expenditure	<u>57</u>	<u>46</u>
Charged to General Income	1,525	1,428
Charged to Student Residences	183	167
Charged to Central Catering	38	36
	<u>1,746</u>	<u>1,631</u>

Some of the 2001 Staff Number figures have been re-analysed to ensure comparability with 2002.

	2002	2001
	£'000	£'000
DIRECTORS' REMUNERATION		
Directors		
Emoluments (2001/02 - 10 Directors ; 2000/01 - 9 Directors)	<u>724</u>	<u>674</u>

Retirement benefits are accruing to 9 directors under a defined benefit scheme, USS.

	2002	2001
Highest paid director		
Emoluments	176	160
Defined benefit pension scheme :		
Accrued pension at end of year	81	75
Accrued lump sum at end of year	<u>243</u>	<u>225</u>

HIGHER PAID STAFF

Emoluments of the Director	176	160
Employer's pension contributions on behalf of the Director	2	21
Total emoluments of the Director	<u>178</u>	<u>181</u>

The Director was the School's 'Highest Paid Director' as disclosed above. Contributions to the pension scheme stopped during the year as 40 years pensionable service had been achieved.

A higher paid employee took early retirement and an amount of £43,000 was paid into his USS pension scheme to buy added years of service.

NOTES TO THE ACCOUNTS (CONTINUED)

For the Year Ended

31ST JULY 2002

6 STAFF COSTS (Cont.)

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

	Higher Paid Employees	
	2002 Number	2001 Number
£50,001 - £60,000	68	58
£60,001 - £70,000	36	26
£70,001 - £80,000	15	17
£80,001 - £90,000	14	7
£90,001 - £100,000	6	7
£100,001 - £110,000	1	-
£110,001 - £120,000	-	1
£120,001 - £130,000	2	-
£130,001 - £140,000	-	1
	<u>142</u>	<u>117</u>

7 INTEREST PAYABLE

Loans not wholly repayable within five years
Finance Leases

	2002 £'000	2001 £'000
Loans not wholly repayable within five years	3,265	3,688
Finance Leases	908	1,127
	<u>4,173</u>	<u>4,815</u>

8 ANALYSIS OF 2001/2002 EXPENDITURE BY ACTIVITY

	Staff Costs	Other Operating Expenses	Depreciation	Interest Payable	Total
	£'000	£'000	£'000	£'000	£'000
Academic Departments	30,241	3,268	-	-	33,509
Academic Services	4,388	3,511	-	-	7,899
Research Grants and Contracts	7,915	2,424	-	-	10,339
General Educational Expenditure	164	6,020	-	-	6,184
Premises	1,949	10,247	1,983	-	14,179
Administration and Central Services	7,185	2,151	-	-	9,336
Staff and Student Facilities	859	371	-	-	1,230
Other Operating Expenditure	1,324	5,162	39	1,659	8,184
Severance Costs and Unfunded Pensions	-	275	-	-	275
Residences and Catering	2,584	6,494	788	2,514	12,380
	<u>56,609</u>	<u>39,923</u>	<u>2,810</u>	<u>4,173</u>	<u>103,515</u>

NOTES TO THE ACCOUNTS (CONTINUED)

For the Year Ended

31ST JULY 2002

	2002	2001
	£'000	£'000
9 ACADEMIC DEPARTMENTS		
Teaching Staff	24,508	22,458
Support Staff	3,528	3,433
Departmental Expenses	1,551	1,164
Departmental Outside Funds	1,004	784
School Funded Research	952	402
Short Courses : Staff Costs	859	734
Short Courses : Other Costs	1,107	951
	<u>33,509</u>	<u>29,926</u>
10 ACADEMIC SERVICES		
Library : Staff	2,358	2,280
: Other	2,750	2,816
	<u>5,108</u>	<u>5,096</u>
Computer Service : Staff	1,278	1,339
: Other	1,513	1,881
	<u>2,791</u>	<u>3,220</u>
	<u>7,899</u>	<u>8,316</u>
11 RESEARCH		
Grants and Contracts	8,986	8,105
Endowment Funded	1,353	1,647
	<u>10,339</u>	<u>9,752</u>
12 GENERAL EDUCATIONAL EXPENDITURE		
Examinations	252	257
Publications	510	474
Student Support	3,080	3,097
Scholarships & Other Expenditure Funded from Specific Endowments	1,711	1,495
Remission of Fees	99	196
Student Recruitment	380	410
Other	152	62
	<u>6,184</u>	<u>5,991</u>
13 PREMISES		
Rent	1,558	765
Rates	346	279
Insurance	311	261
Heat, Light, Power and Water	720	695
Furniture and Equipment	105	213
Cleaning Contractors	788	781
Telecommunications	373	384
Library Decanting Costs	1	1,958
Other Running Costs	879	720
Routine Maintenance : Staff	1,949	1,977
: Other	2,774	3,531
Maintenance Expenditure	2,342	496
Depreciation ; Buildings	1,442	945
Depreciation ; Equipment	541	366
Loss on Disposal of Equipment	50	-
	<u>14,179</u>	<u>13,371</u>

NOTES TO THE ACCOUNTS (CONTINUED)

For the Year Ended

31ST JULY 2002

	NOTES	2002 £'000	2001 £'000
14 ADMINISTRATION AND CENTRAL SERVICES			
Staff		7,185	6,559
Office and Sundry Expenses		2,108	2,254
External Audit Fee		43	56
		<u>9,336</u>	<u>8,869</u>
15 STAFF AND STUDENT FACILITIES			
Grant to Students' Union		532	512
Athletics Ground Maintenance		120	79
Careers Advisory Service		183	166
Medical Service		279	230
Nursery Subsidy		55	42
Halls Wardens' Salaries		20	14
Other		41	45
		<u>1,230</u>	<u>1,088</u>
16 OTHER OPERATING EXPENDITURE			
University of London Central Costs		243	258
Fund-Raising : Staff Costs		940	763
Fund-Raising : Other Costs		834	460
Annual Review and LSE Magazine		180	181
External Study		761	517
Consultancy Services : Staff Costs		384	323
Consultancy Services : Other Costs		2,294	1,941
Staff Training		173	161
Trium MBA Costs		2	169
Other		714	641
Mortgage Interest -Barclays Bank PLC	24	527	552
Mortgage Interest -Barclays Bank PLC	24	722	862
Mortgage Interest -National Westminster Bank PLC	24	386	531
Bank Loan Interest EFG/Rothschilds	24	24	-
		<u>8,184</u>	<u>7,359</u>
17 SEVERANCE COSTS AND UNFUNDED PENSIONS			
Premature Retirement Costs		76	153
Pensions Payable to Former Employees	19	199	209
		<u>275</u>	<u>362</u>
18 EXCEPTIONAL ITEM			
<p>The School was one of five University of London Institutions that founded AFSIL in 1965 and provided representatives to serve on its Board of directors. In 1999 the Directors resolved to dissolve the company in the light of the estimated future costs of maintenance and refurbishment of its properties. In late-2000 AFSIL sold all of its properties, and one fifth of the net proceeds accrued to the School.</p>			
19 PENSION COMMITMENTS			
(i) USS			
<p>The School participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Earnings Related Pension Scheme. The assets of the scheme are held in a separate trustee administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the surplus/deficit for the year in the income and expenditure account being equal to the contributions payable to the scheme for the year.</p>			

NOTES TO THE ACCOUNTS (CONTINUED)

For the Year Ended

31ST JULY 2002

19 PENSION COMMITMENTS (Cont.)

The latest actuarial valuation of the Scheme was at 31 March 1999. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.5% per annum, salary increases would be 3.6% per annum and pensions would increase by 2.5% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 5.5% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.5% per annum and pensions would increase by 2.5% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the market value of the assets of the scheme was £18,870 million (including an estimated £55 million in respect of outstanding bulk transfer payments due) and the value of the past service liabilities was £17,427 million leaving a surplus of assets of £1,443 million. The assets therefore were sufficient to cover 108% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The institution contribution rate required for future service benefits alone at the date of the valuation was 16.3% of salaries but it was agreed that the institution contribution rate will be maintained at 14% of salaries. To fund this reduction of 2.3% for the period of 11 years from the date of the valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £561 million of the surplus. It was also agreed, following the valuation, that £201 million of the surplus would be used to fund certain benefit improvements. This left a past service surplus of £681 million (including the Supplementary Section) to be carried forward.

Surpluses or deficits which arrive at future valuations may impact on the School's future contribution commitment. The next formal actuarial valuation is due as at 31 March 2002 when the above rates will be reviewed.

The total pension cost for the School was £3,955,000 (2001 £3,523,000). The contribution rate payable by the School was 14% of pensionable salaries.

(ii) SAUL

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

The scheme is subject to triennial valuation by professionally qualified and independent actuaries. The last available valuation was carried out as at 31 March 1999 using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The following assumptions were used to assess the past service funding position :-

Investment return	4.5% per annum
General level of salary growth	4.1% per annum (excluding an allowance for promotional increases)
Pension increases	2.6% per annum

The actuarial valuation applies to the scheme as a whole and does not identify surpluses or deficits applicable to individual Employers. As a whole, the market value of the scheme's assets was £846.6 million representing 120% of the liability for benefits after allowing for expected future increases in salaries.

In relation to future service liabilities it was assumed that real investment return above prices were 4% per annum and real salary increases above prices were 1.5% per annum. The contribution rate required for future service benefits alone at the date of the valuation was 14.4% of salaries per annum.

Employers who have recently joined SAUL ("New Employers") and certain employee groups (as agreed by the Trustees of SAUL), pay 14.4% of salaries per annum until the second actuarial valuation after entry (or some other period as agreed with the Trustees). The past service surplus allows all other Employers to pay contributions at the rate of 10.5% of pensionable salaries per annum. The surplus also supports the continuation of the Employee contribution rate of 5% of salaries per annum.

The next formal actuarial valuation is due at 31 March 2002 when the above rates will be reviewed.

(iii)

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. The cost of these supplementary pensions is charged in the Income and Expenditure account, and detailed in note 17 above, but no provision is made for the commitment in respect of future years.

NOTES TO THE ACCOUNTS (CONTINUED)

As at

31ST JULY 2002

20 TANGIBLE FIXED ASSETS

Group	LAND AND BUILDINGS			TOTAL
	FREEHOLD	LONG LEASEHOLD	EQUIPMENT	
	£'000	£'000	£'000	£'000
COST				
As at 1 August 2001	121,804	16,911	6,015	144,730
Additions in Year	4,828	-	452	5,280
Disposals	-	-	(153)	(153)
As at 31 July 2002	126,632	16,911	6,314	149,857
DEPRECIATION				
As at 1 August 2001	4,267	921	2,535	7,723
Charge for Year	1,761	321	681	2,763
Disposals	-	-	(103)	(103)
As at 31 July 2002	6,028	1,242	3,113	10,383
NET BOOK VALUE				
As at 1 August 2001	117,537	15,990	3,480	137,007
As at 31 July 2002	120,604	15,669	3,201	139,474
Held for the purpose of providing :-				
Main School Properties	91,689	1,519	3,120	96,328
Student Residential Accommodation	28,915	14,150	81	43,146
	120,604	15,669	3,201	139,474

School	LAND AND BUILDINGS			TOTAL
	FREEHOLD	LONG LEASEHOLD	EQUIPMENT	
	£'000	£'000	£'000	£'000
COST				
As at 1 August 2001	121,804	16,261	5,908	143,973
Additions in Year	4,828	-	289	5,117
Disposals	-	-	(153)	(153)
As at 31 July 2002	126,632	16,261	6,044	148,937
DEPRECIATION				
As at 1 August 2001	4,267	898	2,475	7,640
Charge for Year	1,761	309	641	2,711
Disposals	-	-	(103)	(103)
As at 31 July 2002	6,028	1,207	3,013	10,248
NET BOOK VALUE				
As at 1 August 2001	117,537	15,363	3,433	136,333
As at 31 July 2002	120,604	15,054	3,031	138,689
Held for the purpose of providing :-				
Main School Properties	91,689	904	2,950	95,543
Student Residential Accommodation	28,915	14,150	81	43,146
	120,604	15,054	3,031	138,689

NOTES TO THE ACCOUNTS (CONTINUED)

As at

31ST JULY 2002

20 TANGIBLE FIXED ASSETS (Cont.)

Group and School

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

Included within Freehold Land and Buildings is Student Residential Accommodation with a net book value of £12,670,000 (2000/01 - £12,835,000) which is financed by a finance lease. The depreciation charge was £165,000 (2001/02 -£165,000).

FIXED ASSETS NOT CAPITALISED

The School's collections of books, manuscripts and objets d'art have been built up over many years, their historic cost is not ascertainable, and their value incalculable.

21 INVESTMENTS

Group	JOINT	FREEHOLD	CASH	OTHER	TOTAL
	VENTURE	PROPERTY		INVESTMENTS	
	£,000	£,000	£,000	£,000 As restated	£,000 As restated
FIXED ASSETS	33	-	-	8,945	8,978
ENDOWMENTS	-	2,207	7,030	30,637	39,874
As at 1 August 2001	33	2,207	7,030	39,582	48,852
Additions	8	1,537	-	56,775	58,320
Disposals	-	(1,323)	(315)	(56,178)	(57,816)
Appreciation/(Depreciation) on Revaluation	-	-	-	(7,741)	(7,741)
Depreciation	-	(47)	-	-	(47)
FIXED ASSETS	41	-	-	6,764	6,805
ENDOWMENTS	-	2,374	6,715	25,674	34,763
As at 31 July 2002	41	2,374	6,715	32,438	41,568
School	SUBSIDIARY	FREEHOLD	CASH	OTHER	TOTAL
	COMPANIES	PROPERTY		INVESTMENTS	
	£,000	£,000	£,000	£,000 As restated	£,000 As restated
FIXED ASSETS	150	-	-	8,945	9,095
ENDOWMENTS	-	2,207	7,030	30,637	39,874
As at 1 August 2001	150	2,207	7,030	39,582	48,969
Additions	-	1,537	-	56,775	58,312
Disposals	-	(1,323)	(315)	(56,178)	(57,816)
Appreciation/(Depreciation) on Revaluation	-	-	-	(7,741)	(7,741)
Depreciation	-	(47)	-	-	(47)
FIXED ASSETS	150	-	-	6,764	6,914
ENDOWMENTS	-	2,374	6,715	25,674	34,763
As at 31 July 2002	150	2,374	6,715	32,438	41,677

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

The subsidiary company Enterprise LSE Ltd, has acquired an interest of 0.6% in UNEXT - an internet education company. Enterprise LSE's holding has a net book value of £1 and is believed to have an estimated current market value in excess of £600k.

NOTES TO THE ACCOUNTS (CONTINUED)

As at

31ST JULY 2002

21 INVESTMENTS (Cont.)

Group and School	2002	2001
Other Investments are attributable to the following funds:-	Market Value £'000	Market Value £'000
Specific Endowments	22,740	27,160
General Endowments	2,933	3,477
Total Endowments	25,673	30,637
General Reserves	6,765	8,945
	<u>32,438</u>	<u>39,582</u>
Investment Analysis	2002	2001
Other Investments can be further analysed as follows :-	Market Value £'000	Market Value £'000
UK Equities	17,592	26,923
Overseas Equities	5,598	-
Gilts	2,032	-
UK Corporate Bonds	5,699	-
Other	836	-
	31,757	26,923
Bank Balances	681	12,659
	<u>32,438</u>	<u>39,582</u>

At the 31st July 2001 the School changed its Investment Managers from Schroders to Barclays Global Investors. Most of the Schroders Unit Trusts were converted into cash at this date.

22 DEBTORS

	Group 2002	School 2002	Group 2001	School 2001
	£'000	£'000	£'000	£'000
Amounts falling due within one year:-				
Trade Debtors	4,327	3,747	3,983	3,570
Research Balances	2,207	2,207	2,642	2,642
Staff Loans for Housing	20	20	19	19
Other Debtors	2,423	2,357	3,301	3,230
Prepayments and Accrued Income	987	697	717	446
Amounts due from Subsidiary Undertakings	-	1,934	-	2,664
	<u>9,964</u>	<u>10,962</u>	<u>10,662</u>	<u>12,571</u>
Amounts falling due after more than one year:-				
Staff Loans for Housing	109	109	131	131
Prepayments and Accrued Income	65	65	69	69
	<u>174</u>	<u>174</u>	<u>200</u>	<u>200</u>
TOTAL	<u>10,138</u>	<u>11,136</u>	<u>10,862</u>	<u>12,771</u>

23 CASH AT BANK AND IN HAND

Included within Cash is £1,227,000 held on behalf of the TRIUM MBA Joint Venture of which the School is a member. The element relating to other members of the Joint Venture is recorded in Creditors.

NOTES TO THE ACCOUNTS (CONTINUED)

As at

31ST JULY 2002

24	CREDITORS	Group 2002	School 2002	Group 2001	School 2001
		£'000	£'000	£'000	£'000
	Amounts falling due within one year:-				
	Bank Loan - National Westminster Bank PLC	210	210	190	190
	Mortgage - National Westminster Bank PLC	364	364	364	364
	Mortgage - Newcastle Building Society	240	240	240	240
	Mortgages - Barclays Bank PLC	960	960	960	960
	Mortgage - Barclays Bank PLC	631	631	631	631
	Trade Creditors	1,826	1,826	3,042	2,900
	Research Balances	4,416	4,416	4,512	4,512
	Short Courses	4	4	2	2
	Taxation and Social Security	1,643	1,645	1,493	1,512
	Other Creditors	1,974	1,971	1,432	1,402
	TRIUM MBA Joint Venture	2,755	2,755	1,401	1,401
	Building Works	1,546	1,546	484	484
	Accruals and Deferred Income	7,187	6,191	6,396	5,741
	Amounts due to Subsidiary Undertakings	-	1,179	-	1,642
		<u>23,756</u>	<u>23,938</u>	<u>21,147</u>	<u>21,981</u>
	Amounts falling due after one year:-				
	Bank Loan - National Westminster Bank PLC	3,785	3,785	3,995	3,995
	Bank Loan - EFG	875	875	-	-
	Bank Loan - Rothschilds	875	875	-	-
	Mortgage - National Westminster Bank PLC	7,100	7,100	7,464	7,464
	Mortgage - Newcastle Building Society	4,560	4,560	4,800	4,800
	Mortgages - Barclays Bank PLC	19,200	19,200	20,160	20,160
	Mortgage - Barclays Bank PLC	13,732	13,732	13,963	13,963
	Finance Lease - Hambros Bank PLC	14,440	14,440	14,393	14,393
	Note 25	<u>64,567</u>	<u>64,567</u>	<u>64,775</u>	<u>64,775</u>

Bank Loan - National Westminster Bank PLC

The Bank Loan is secured on the School's Butlers Wharf Student Residence and is subject to a 10 year SWAP agreement to 2004 at an interest rate of 8.84%. It is repayable in increasing instalments, finishing in 2013.

Bank Loans - EFG/Rothschilds

These loans are unsecured at an interest rate of LIBOR plus 1% and are repayable in 2005.

Mortgage - National Westminster Bank PLC

This is a 25 year mortgage secured on the freeholds of Cowdray House and Columbia House. It is repayable in half yearly equal payments of principal (£182,000) at a variable interest rate of LIBOR plus 50 basis points, finishing in 2023.

Mortgage - Newcastle Building Society

This is a 25 year mortgage secured on the Rosebery Avenue and Myddelton Street Student Residences. It is repayable in half yearly equal payments of principal (£120,000) at a variable interest rate of LIBOR plus 55 basis points, finishing in 2022.

Mortgages - Barclays Bank PLC

These three mortgages are secured on Bankside House Student Residence, Clement House and the St Philips Building and are repayable in quarterly equal payments of principal (£240,000) and are subject to a 5 year interest rate SWAP to 2003 at a rate of 7.13% and thereafter at a floating interest rate linked to LIBOR, finishing in 2023.

Mortgage - Barclays Bank PLC

This 25 year mortgage is secured on Mobil Court. It is repayable in quarterly equal payments of principal (£158,000) at a variable interest rate of LIBOR plus 45 basis points, finishing in 2025.

Finance Lease - Hambros Bank PLC

The School has financed the construction of the High Holborn Student Residence by means of a 25 year Finance Lease. The interest charges are calculated pro-rata to the notional interest rate (7.058%) assumed in the lease cashflows. Lease rentals escalate at 3% per annum.

NOTES TO THE ACCOUNTS (CONTINUED)

As at

31ST JULY 2002

25	BORROWINGS	Group 2002	School 2002	Group 2001	School 2001
	Bank loans and mortgages are repayable as follows :	£'000	£'000	£'000	£'000
	In one year or less	2,405	2,405	2,385	2,385
	Between one and two years	2,447	2,447	2,405	2,405
	Between two and five years	9,169	9,169	7,103	7,103
	In five years or more	38,511	38,511	40,874	40,874
		<u>52,532</u>	<u>52,532</u>	<u>52,767</u>	<u>52,767</u>

Finance Leases

The net finance lease obligations to which the School is committed are :

In one year or less	-	-	-	-
Between one and five years	218	218	171	171
Over five years	14,222	14,222	14,222	14,222
	<u>14,440</u>	<u>14,440</u>	<u>14,393</u>	<u>14,393</u>

26 DEFERRED CAPITAL GRANTS

Group and School	NOTES	FUNDING COUNCIL	OTHER GRANTS & DONATIONS	TOTAL
		£'000	£'000	£'000
As at 1 August 2001		15,463	18,501	33,964
Cash Received		2,041	1,239	3,280
Released to Income and Expenditure Account - School	1 & 4	(220)	(218)	(438)
Released to Income and Expenditure Account - Halls		(18)	(28)	(46)
As at 31 July 2002		<u>17,266</u>	<u>19,494</u>	<u>36,760</u>

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

NOTES TO THE ACCOUNTS (CONTINUED)

As at

31ST JULY 2002

27 SPECIFIC ENDOWMENTS

Group and School	NOTES	RESEARCH	OTHER	TOTAL
		£'000	£'000	£'000
		As restated	As restated	As restated
As at 1 August 2001				
Capital		15,576	15,130	30,706
Income		981	1,801	2,782
		<u>16,557</u>	<u>16,931</u>	<u>33,488</u>
Additions		704	2,202	2,906
Appreciation/(Depreciation) of Endowment Asset Investments		(1,919)	(2,793)	(4,712)
Investment Income		491	553	1,044
Transferred to Income and Expenditure Account		(1,353)	(2,152)	(3,505)
Research Overheads	3 & 5	(305)	-	(305)
As at 31 July 2002		<u>14,175</u>	<u>14,741</u>	<u>28,916</u>
Represented by:-				
Capital		13,179	13,017	26,196
Income		996	1,724	2,720
		<u>14,175</u>	<u>14,741</u>	<u>28,916</u>

The above funds represent monies endowed to the School for particular purposes. Those used to establish Research Centres are shown separately. The other funds are generally tied to the founding of a chair, a prize, scholarships, or the purchase of library books etc.

28 GENERAL ENDOWMENTS

Group and School	NOTES	ROCKEFELLER	OTHER	TOTAL
		£'000	£'000	£'000
		As restated	As restated	As restated
As at 1 August 2001				
Capital		2,333	4,011	6,344
Income		-	42	42
		<u>2,333</u>	<u>4,053</u>	<u>6,386</u>
Additions	5	-	1	1
Appreciation/(Depreciation) of Endowment Asset Investments	5	(560)	4	(556)
Investment Income	5	93	84	177
Depreciation		-	(47)	(47)
Transferred to Income and Expenditure Account		(93)	(21)	(114)
As at 31 July 2002		<u>1,773</u>	<u>4,074</u>	<u>5,847</u>
Capital		1,773	3,925	5,698
Income		-	149	149
		<u>1,773</u>	<u>4,074</u>	<u>5,847</u>

The above funds represent monies endowed to the School, the income from which is available for use entirely at the discretion of the School.

NOTES TO THE ACCOUNTS (CONTINUED)

As at

31ST JULY 2002

29 REVALUATION RESERVE

Group and School

FIXED ASSET INVESTMENTS

£'000
As restated

As at 1 August 2001

1,351

Revaluation in Year

(1,351)

As at 31 July 2002

-

30 GENERAL RESERVE

Reserves are sub-divided into separate operating activities and the balances on each are set out below;

Group

	B/F	I&E	C/F
	£'000	£'000	£'000
General Reserve	11,089	1,448	12,537
Committed Balances	31,295	(577)	30,718
Student Residences	(6,305)	494	(5,811)
Central Catering	1,137	3	1,140
	<u>37,216</u>	<u>1,368</u>	<u>38,584</u>

School

	B/F	I&E	C/F
	£'000	£'000	£'000
General Reserve	11,089	1,448	12,537
Committed Balances	31,262	(585)	30,677
Student Residences	(6,626)	464	(6,162)
Central Catering	1,137	3	1,140
	<u>36,862</u>	<u>1,330</u>	<u>38,192</u>

NOTES TO THE ACCOUNTS (CONTINUED)

For the Year Ended

31ST JULY 2002

31	RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES	2002	2001
	£'000	£'000	£'000
	Surplus of Income over Expenditure for the Year on Total Activity Before Tax	829	393
	Adjustment for Depreciation and Deferred Capital Grants		
	Depreciation	2,810	2,122
	Loss on Disposal of Tangible Fixed Assets	50	-
	Deferred Capital Grants Released	(484)	(120)
		<u>2,376</u>	<u>2,002</u>
	Adjustment for Investment and Financing Cash Flows		
	Investment Income Receivable	(809)	(776)
	(Profit)/Loss on Disposal/Revaluation of Investments	1,386	(514)
	Interest Payable	4,173	4,815
		<u>4,750</u>	<u>3,525</u>
	Adjustment for Restricted Fund Cash Flows		
	Transfer to Income & Expenditure Account	(3,810)	(3,768)
	Additions to Funds	2,743	2,472
		<u>(1,067)</u>	<u>(1,296)</u>
	Adjustments to Working Capital		
	Decrease in Stocks	8	5
	(Increase)/Decrease in Debtors	724	(887)
	Increase in Creditors	2,609	2,403
	Less relating to:		
	- Bank Loans/Mortgages	(20)	(57)
		<u>3,321</u>	<u>1,464</u>
	Net cash Inflow from Operating Activities	<u><u>10,209</u></u>	<u><u>6,088</u></u>
		2002	2001
		£'000	£'000
32	RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
	Income from Endowments	1,221	1,462
	Other Investment Income	632	608
	Interest Payable	(4,173)	(4,815)
	Accrued Interest added to Long Term Loans	47	79
		<u>(2,273)</u>	<u>(2,666)</u>
33	CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
	Payments to Acquire Tangible Fixed Assets	(5,280)	(21,839)
	Payments to Acquire Investments	(56,783)	(19,704)
	Payments to Acquire Investment Property	(1,537)	-
	Receipts from Sales of Investments	56,178	19,669
	Receipts from Sales of Investment Property	1,615	-
	Deferred Capital Grants/Donations Received	3,280	12,769
	Permanent Endowments Received	163	369
		<u>(2,364)</u>	<u>(8,736)</u>

NOTES TO THE ACCOUNTS (CONTINUED)

For the Year Ended

31ST JULY 2002

		2002		2001	
		£'000		£'000	
34	MANAGEMENT OF LIQUID RESOURCES				
	Cash (Added)/Withdrawn from Fixed Term Deposits	<u>(6,000)</u>		<u>6,000</u>	
		<u>(6,000)</u>		<u>6,000</u>	
35	FINANCING				
	Bank Loan Repayment - National Westminster Bank PLC	(190)		(172)	
	Mortgage Repayment - National Westminster Bank PLC	(364)		(364)	
	Mortgage Repayment - Newcastle Building Society	(240)		(240)	
	Mortgages Repayments - Barclays Bank PLC	(960)		(960)	
	Mortgage Repayment - Barclays Bank PLC	(631)		(567)	
	Mortgage - Barclays Bank PLC	400		1,400	
	Bank Loan - EFG	875		-	
	Bank Loan - Rothschilds	875		-	
		<u>(235)</u>		<u>(903)</u>	
36	ANALYSIS OF CHANGES IN NET DEBT				
	At	Cash	Other	At	
	1 August	Flows	Changes	31 July	
	£'000	£'000	£'000	£'000	
	Cash at Bank and in Hand	1,527	5,652	-	7,179
	Endowment Cash	7,030	(315)	-	6,715
	Less : Fixed Term Deposits	-	(6,000)	-	(6,000)
		<u>8,557</u>	<u>(663)</u>	<u>-</u>	<u>7,894</u>
	Fixed Term Deposits	-	6,000	-	6,000
	Debt due within one year	(2,385)	2,385	(2,405)	(2,405)
	Debt due after one year	(64,775)	(2,150)	2,358	(64,567)
		<u>(58,603)</u>	<u>5,572</u>	<u>(47)</u>	<u>(53,078)</u>

37 CAPITAL COMMITMENTS

There were no capital commitments.

38 OPERATING LEASES

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

	Group	School	Group	School
	2002	2002	2001	2001
	£'000	£'000	£'000	£'000
Land and buildings				
Expiring within one year	-	-	-	-
Expiring between two and five years	-	-	-	-
Expiring in over five years	1,627	1,627	1,502	1,502
	<u>1,627</u>	<u>1,627</u>	<u>1,502</u>	<u>1,502</u>

NOTES TO THE ACCOUNTS (CONTINUED)

For the Year Ended

31ST JULY 2002

39 SUBSIDIARY COMPANIES

The School has five wholly owned subsidiary companies, Enterprise LSE Ltd (Registered in England), VELSE Ltd (Registered in England), LSE LETS Ltd (Registered in England), Melton Investments Ltd (Registered in Guernsey), and LSE Foundation Inc. (Registered in USA).
VELSE Ltd and LSE LETS Ltd each have a share capital of £2. Enterprise LSE Ltd has a share capital of £150,000, and Melton Investments Ltd has a share capital of US\$22,000. LSE Foundation Inc. has no share capital.

Melton Investments Ltd is currently in Members Voluntary Liquidation.

The School has a one third share in the TRIUM MBA course, being a Joint Venture with NYU Stern and HEC Paris. Accounts have not yet been prepared for 2001/02. However the School's share of the Turnover and Operating Profit is not considered material.

The School has a 50% share in the Journal of Transport Economics and Policy being a Joint Venture with the [University of Bath](#). [Accounts have not yet been received for 2001/02 but the 2000/2001 Accounts show the School's share of Turnover to be £39,000 and Operating Profit to be £8,000. These have not been disclosed on the face of the Income & Expenditure Account due to immateriality. The School's share of Reserves \(£41,000\) is included in Committed Balances as shown in note 30.](#)

The School, through its subsidiary, Enterprise LSE Ltd, holds a 0.6% share in UNEXT Inc. (registered in USA). No control is exerted over UNEXT Inc. therefore it is not considered as a subsidiary and is not consolidated within these accounts. Income and expenditure in respect of UNEXT Inc. is recorded in accordance with the School's normal accounting policies.

40 RELATED PARTY TRANSACTIONS

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

41 CONTINGENT LIABILITIES

The School is a member of UMALT, a company limited by guarantee, formed to provide a mutual association for terrorism risks. Under the terms of its membership, each member acts as insurer and insured. If the association as a whole suffers a shortfall in any underwriting year, the members are liable for their pro rata share, payments being spread over seven years through the use of a bank facility.

	2002	2001
42 ACCESS FUNDS		
Consolidated and School	£'000	£'000
Balance Unspent as at 1st August	21	55
Funding Council Grants	150	135
Interest Earned	2	2
Disbursed to Students	(129)	(171)
Balance Unspent as at 31st July	<u>44</u>	<u>21</u>

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

NOTES TO THE ACCOUNTS (CONTINUED)

For the Year Ended

31ST JULY 2002

43 PRIOR YEAR ADJUSTMENT

In line with the SORP: Accounting for Further and Higher Education, with effect from 1 August 2001 the School has changed its accounting policy with regard to investments which are now shown in the Balance Sheet at market value having previously been shown at cost.

As a result the comparative figures for the year ended 31 July 2001 have been adjusted to reflect this.

Consolidated	Previously Reported	Revaluation to Market Value	Now Reported
	£'000	£'000	£'000
Fixed Assets			
Investments	7,627	1,351	8,978
Endowment Assets	37,935	1,939	39,874
Endowments			
Specific	31,892	1,596	33,488
General	6,043	343	6,386
Revaluation Reserve	-	1,351	1,351
School	Previously Reported	Revaluation to Market Value	Now Reported
	£'000	£'000	£'000
Fixed Assets			
Investments	7,744	1,351	9,095
Endowment Assets	37,935	1,939	39,874
Endowments			
Specific	31,892	1,596	33,488
General	6,043	343	6,386
Revaluation Reserve	-	1,351	1,351

CORPORATE GOVERNANCE STATEMENT

For the Year Ended

31ST JULY 2002

The following statement is given to assist readers of the financial statements to gain an understanding of the governance arrangements of the School and to indicate the School's intention to adopt best practice to the greatest extent possible.

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

The principal statutory bodies are as follows:

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

As constitutional guardian, the Court has the following formal powers: the appointment of members of Court, its sub-committees and of the Council; amendment of the Memorandum and Articles of Association; appointment of the Director; approval of the annual accounts; and appointment of the external auditors. As members of the company, governors have the power of recall under the Companies Acts. If governors are dissatisfied with a decision made by the Council, they (ie 10 members according to the Companies Acts) can requisition a special meeting of the Court. Such a meeting would be for discussion only; or, if due notice was given, could in extreme circumstances involve the removal of Council.

The Council (the members of which are the directors of the company)

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

Council is supported in carrying out its role by a Finance and General Purposes Committee, an Investments Committee, a Remuneration Committee, an Estates Strategy Committee, an Academic Planning and Resources Committee, a Health and Safety Committee and an Audit Committee.

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

Internal Control

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

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

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically. Procedures are in place that are necessary to provide a full statement on internal control for the whole of the year 2002/03. This takes account of the time needed to fully embed and improve the processes which the Council and management have established.

The actions taken over the past two years to develop a robust system of risk management include: the adoption of formal policy and strategy statements; the allocation of management responsibility for risk management; the establishment of a risk sub-committee of the Finance and General Purposes Committee to oversee risk management arrangements; the holding of a number of meetings of senior officers to identify and evaluate strategic risks; requesting Audit Committee to provide advice on the emerging effectiveness of procedures for the management of risk; and the adoption in internal audit reviews and procedures of the latest professional standards in relation to risk management.

CORPORATE GOVERNANCE STATEMENT

For the Year Ended

31ST JULY 2002

Council's meeting calendar and agenda provide for risk management and internal control to be considered on a regular basis during the year so that there will be a full risk and control assessment before reporting on the year ending 31 July 2003. Risk management has been incorporated more fully into the corporate planning and decision-making processes of the School.

Council receives periodic reports from Audit Committee on the development of risk management policies and procedures.

In order to consolidate the significant progress already made in developing a comprehensive risk management system the following actions are being taken in the year 2002/03: the completion of an organisation-wide risk register; the consideration by the Risk Sub-Committee of reports on steps being taken by individual managers to manage risks within their individual areas of responsibility as defined in the risk register; the introduction of a programme of risk-awareness training; and the establishment of a system of key performance and risk indicators.

The School has an internal audit service, which operates to standards defined in the HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Service in November 2000. The internal auditor submits regular reports which include his independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement.

Council's view of the effectiveness of the system of internal control is informed by the work of internal audit and the executive managers within the School who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letters and other reports.

STATEMENT OF COUNCIL'S RESPONSIBILITIES

For the Year Ended

31ST JULY 2002

In accordance with the Companies Act 1985 the Council, as directors, are responsible for the administration and management of the School's affairs, including running an effective system of internal controls, and is required to present audited financial statements for each financial year.

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the School and enable it to ensure that the financial statements are prepared in accordance with the Companies Act 1985, the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum between the Higher Education Funding Council for England and the Council of the School, the Council, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the School and of the surplus or deficit and cash flows for that year. The designated office holder for this purpose is the Director.

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

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the School will continue in operation. The Council is satisfied that the School has adequate resources to continue in operation for the foreseeable future; for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Council has taken reasonable steps to:

- ensure that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the School and to prevent and detect fraud;
- secure the economical, efficient and effective management of the School's resources and expenditure.

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

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

STATEMENT OF COUNCIL'S RESPONSIBILITIES

For the Year Ended

31ST JULY 2002

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

The maintenance and integrity of the London School of Economics and Political Science website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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

REPORT OF THE AUDITORS

For the Year Ended

31ST JULY 2002

Independent Auditor's Report to the Court of Governors of the London School of Economics and Political Science

We have audited the financial statements which comprise the income and expenditure account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention and in accordance with the accounting policies set out in the statement of accounting policies.

Respective Responsibilities of the Governing Body and Auditors

As described in the statement of the Council's responsibilities, the Council is responsible for the preparation of the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice - Accounting for Further and Higher Education Institutions, applicable law and United Kingdom accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education Institutions and the United Kingdom Companies Act 1985. We also report to you whether, in our opinion, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the School, have been properly applied in all material respects for the purposes for which they were received, and whether income has been applied in all material respects in accordance with the School's statutes and where appropriate with the financial memorandum with the Higher Education Funding Council for England. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the School has not kept proper accounting records, the accounting records do not agree with the financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Opinion

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

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

Opinion

In our opinion:

- (a) [the financial statements give a true and fair view of the state of affairs of the School and the Group at 31 July 2002](#), and of the surplus of income over expenditure and cash flows of the group for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education Institutions and the Companies Act 1985;
- (b) in all material respects, income from the Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the School, have been applied for the purposes for which they were received;
- (c) in all material respects, income has been applied in accordance with the School's statutes and where appropriate with the [current financial memorandum with the Higher Education Funding Council for England](#).

RSM Robson Rhodes

Chartered Accountants and Registered Auditors

Bryanston Court
Selden Hill
Hemel Hempstead
HP2 4TN

OFFICERS RESPONSIBLE FOR THE SCHOOL'S FINANCES

For the Year Ended

31ST JULY 2002

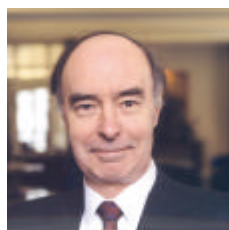
Lord Grabiner of Aldwych QC
Chairman of the Court of
Governors

Mr Bernard Asher
Vice-Chairman
Court of Governors

Mr Bryan Sanderson
Vice-Chairman
Court of Governors

Sir Michael Lickiss
Chairman
Finance & General Purposes
Committee

Professor A Giddens
Director



Professor S Hill
Deputy Director

Dr R Richardson
Deputy Director

Professor J Rees
Deputy Director

Mr B J Pearce
Finance Director

Dr C J Challis
Secretary & Director of
Administration

DIRECTORS OF THE SCHOOL

For the Year Ended

31ST JULY 2002

Chairman : Lord Grabiner of Aldwych QC

Vice-Chairman : Mr Bernard Asher

Vice-Chairman : Mr Bryan Sanderson

Dr N Barr

Mr L Dighton

Dr C V Downton (appointed 6 December 2001)

Mr L Federman (resigned 6 December 2001)

Mr J Frewin (resigned 6 December 2001)

Professor A Giddens

Mr Cyril Glasser CMG

Mr D J Goldstone

Professor S R Hill

Ms K Jenkins

Mr D J Kingsley

Professor J Le Grand

Sir Michael Lickiss

Sir Gordon Manzie KCB (resigned 6 December 2001)

Professor H L Moore

Ms C A Myers (appointed 6 December 2001)

Professor B O'Leary (resigned 6 December 2001)

Ms Anne Page

Mrs C M Patterson CBE

Dr W Plowden

Professor J Rees

Professor J Rosenhead

Professor R Silverstone (appointed 6 December 2001)

Ms C H Taylor

Professor C M Whitehead

Mr R M Worcester

APPENDIX TO THE FINANCIAL STATEMENTS: 1
STUDENT RESIDENCES ACCOUNT

For the Year Ended

31ST JULY 2002

	2002	2001
	£'000	£'000
STUDENT RESIDENCES ACCOUNT		
INCOME		
Students	9,474	9,094
Visitors	2,190	2,778
Miscellaneous	161	128
Deferred Capital Grants Released in Year	46	46
	<u>11,871</u>	<u>12,046</u>
EXPENDITURE		
Salaries and Wages	1,861	1,897
Cleaning	861	852
Cost of Food	720	744
Heat, Light, Water and Power	475	500
Maintenance	1,490	1,143
Long Term Maintenance Provision	151	261
Security	241	251
Rents (inc. Ground Rents)	1,755	1,492
Hambros Finance Lease Interest	908	1,127
Bank and other Loan Interest on loans not wholly repayable within 5 years	1,606	1,743
Internal Interest	99	142
Depreciation ; Buildings	687	687
Depreciation ; Equipment	30	30
Other	493	543
	<u>11,377</u>	<u>11,412</u>
Net Surplus after Non Trading Items	<u>494</u>	<u>634</u>

APPENDIX TO THE FINANCIAL STATEMENTS: 2
 CENTRAL CATERING ACCOUNT
 For the Year Ended

31ST JULY 2002

	2002	2001
	£'000	£'000
CENTRAL CATERING ACCOUNT		
INCOME		
Sales	1,026	947
Internal Sales Income	486	498
SCR Members' Contributions	18	8
	<u>1,530</u>	<u>1,453</u>
EXPENDITURE		
Food and Beverages	539	527
Salaries and Wages	723	653
Miscellaneous	152	144
Depreciation ; Equipment	71	71
	<u>1,485</u>	<u>1,395</u>
Trading Surplus/(Deficit) for the Year	45	58
Refurbishments	(42)	(25)
Net Surplus/(Deficit) after Non Trading Items	<u><u>3</u></u>	<u><u>33</u></u>