

LSE

THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■

Annual Accounts

For the year ended 31 July 2003



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REPORT OF THE CHAIRMAN OF THE COURT OF GOVERNORS



The purpose of this report is to set out the progress made by the London School of Economics and Political Science in the year to 31 July 2003, but I also refer to major developments subsequent to that date which it would be appropriate to mention.

Anthony Giddens' tenure as the 11th Director of LSE came to an end in September. It has been a time of unprecedented achievement for the School. He leaves the School in a position of very high intellectual standing and strength and in a more favourable financial position than for some time. He would, however, be the first to acknowledge that this is the result of teamwork and that there is no room for complacency in the present turbulent global environment. Tony's legacy is evident in the School's outstanding performance in the last Research Assessment Exercise, in exciting new interdisciplinary teaching and research initiatives, major improvements in the estate, the attraction of world class faculty to the School, reforms to the School's system of governance, and the School's high public profile to which his many visits abroad, Director's Lectures and Conversations, and ability to attract major world figures to the School have made a significant contribution.

At the end of April we also said goodbye to Christine Challis OBE, Secretary of the School for some 20 years. Christine's contribution to the work of the School over that period has been immense.

I should like to express the thanks of the whole LSE community, its supporters and friends to Tony and Christine for their outstanding contributions and to take this opportunity to welcome Howard Davies as new Director of the School. I am very pleased to be able to report that the handover to Howard and Christine's successor as Secretary, Adrian Hall, has been very smooth.

LSE's Purposes

The London School of Economics and Political Science aims to be the university centre of international excellence in the study of social sciences. This means we strive to deliver:

- research of the highest international quality with a global interdisciplinary perspective
- high quality teaching drawing on cutting edge research
- an institutional culture for students, staff and alumni that encourages intellectual freedom challenge, tolerance and openness
- active involvement in resolving global challenges, with solid links to national and

international communities that enable us to make valuable contributions to public and private sector decision making.

The national and international environments in which we work to achieve our objectives continue to be turbulent. The proposals in the Government White Paper on the future of Higher Education in England and Wales, and continuing international instability and tension, pose significant challenges for the School, but I am confident that, as in the past year, our fundamental strengths will enable us to continue to make substantial progress towards achieving our objectives.



Dr Javier Solana, High Representative for common foreign and security policy for the European Union, LSE debate 20 February 2003

Financial Situation

Income and Expenditure

The income of the School and its subsidiaries increased 17% to £121.6m (2001/02 £104.3m). Major contributors to this growth were a 21% increase in fee income to £57.9m (2001/02 £48.0m) and a 17% increase in funding council grants to £22.0m (2001/02 £18.7m).

The School achieved an exceptional surplus of £11.2m, equivalent to 9.2% of income. The major factors leading to this surplus were growth in student numbers, arising from an unexpectedly high ratio of acceptances to offers, increased HEFCE grants resulting from the success in the 2001 RAE exercise, benefits from cost control and purchasing process improvements, particularly in residences, lower interest costs and increased endowment income.

It was recognised that the pressure on some academic departments' staff that arose from the unanticipated success in student recruitment was very significant, and that we had reached the limit of capacity of our current facilities. While the pressure was well managed in 2002/03 and additional resources were made available to affected departments, it was clear that a second

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year at such increased levels would have reduced the quality of the student and staff experience. Student offers for 2003/04 have been adjusted downwards accordingly.

Historically, the School has targeted a surplus of 1% of income. Following an extensive Business Modelling exercise, the Finance and General Purposes Committee has now adopted a target surplus range of 3% to 4% of income, recognising that additional surplus is required to fund loan repayments and capital investments. These investments are mainly to upgrade the estate and to ensure that our IT facilities for staff and students continue to be amongst the best available. It is anticipated that levels of surplus in 2003/04 and beyond will be in line with the new target range of 3% to 4%, reflecting HEFCE guidelines.

Cash Flow and Capital Expenditure

In line with the exceptional surplus, cash from operations has been excellent at £12.9m cash inflow. Together with cash raised through the Campaign for LSE and capital grants from HEFCE, and after funding £13.2m capital expenditure, this has resulted in an increase in cash balances from £13.9m to £18.9m and a reduction in gross borrowing from £67.0m to £65.6m.

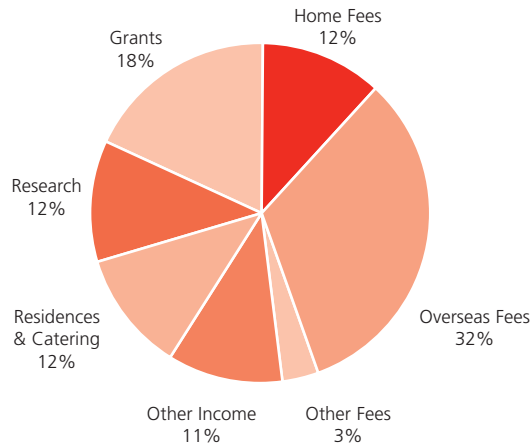
During the year the School acquired the freehold of an additional 2,700 square metres of space, Mobil Court Tower 2, for £10m, partly funded by a Science Research Infrastructure Fund award of £6.0m. The John Watkins Plaza and Plaza café have been completed with the generous support of an anonymous donor, transforming a car park into an excellent new facility for students and staff adjacent to our world class library.

Funding Council Grants

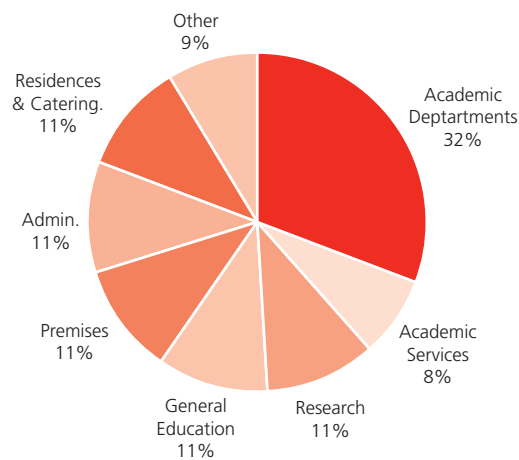
Although LSE has a lower dependency on HEFCE grant for income than many other institutions, it remains the second largest component of income after fees and a vital contributor to the operation and development of the School. In addition to the core teaching grant of £7.6m and research grant of £11.9m, the School received £1.7m in specific grants and £6.0m from Science Research Infrastructure Fund in the year.

The contribution of government funding to LSE is not always recognised. In addition to the grants referred to above, LSE also receives income from Research Councils and from government contracts for research. In my view, the contribution of government funding to LSE is as vital as the contribution of LSE to the development of public policy and economic prosperity in both the UK and beyond.

INCOME 2002/03



EXPENDITURE 2002/03



Research Income

Research Income has increased from £12.2m to £14.1m, and contribution to research overheads has improved from £1.8m to £2.4m. The School has established minimum overhead recovery guidelines appropriate for each contract type. These, together with academic and financial appraisals of research centres, are monitored by the Research Committee. The current mix of research, including significant charitable organisations, European Union and Research Council contracts, means that the School does not fully recover overheads on research, based on the results of our Full Cost Allocation Model analysis in line with JCPSG guidelines.



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Enterprise LSE

Enterprise LSE again made a very significant contribution to LSE, with a contribution to surplus of £440k. The enhancement to academic salaries from ELSE activities during the year was £1.6m.

Improving income from consulting and executive education in the current economic environment is testimony to the quality of the LSE faculty and the effort of Enterprise LSE staff, under its Chairman, Keith Mackrell and its Chief Executive, Simon Flemington.

The consulting business from LSE Cities Programme in urban planning has grown considerably. LSE Council approved the formation of a new subsidiary company, Enterprise LSE Cities Limited, to focus in this area. The new company took over existing contracts in this field commencing 1 August 2003.

A new joint venture has been established by Enterprise LSE with Duke Corporate Education to develop customised executive education for major corporate customers in Europe. This began operations in September 2003 and has already signed several large contracts.

Other Income

For the first time, the income and expenditure account includes a contribution from the TRIUM MBA programme, delivered in collaboration with New York Stern University and HEC Paris. The first cohort of 28 students graduated in London in September 2003.

Residences and Catering has improved financial results and is now self-financing on an income and expenditure basis. The School aims to expand its student accommodation provision from 2,750 beds to 4,000 beds so that we can offer all new students a place in a school residence by 2006. The capital requirements of such expansion will require that this is done in partnership with housing associations and others who will provide both the capital and some of the services required. There are no current plans to sell or to enter into off balance sheet financing for any current freehold residences.

Funding the Future

Tuition fees are the single main source of income for LSE, and are expected to remain the largest component of income for the foreseeable future. Continuing to attract world-class faculty and the brightest and best students is critical to our financial and academic success. This requires that we invest in the physical environment, so that our facilities are more appropriate to needs and expectations of staff, students and researchers and more consistent with our world-class location and reputation. It also requires that we invest in pay to address both the need

to recruit and retain key academic staff and to enable all staff to enjoy a decent level of income appropriate for the work they do in London.

At this time, the potential impact on the School of proposed changes in HEFCE funding methodology for teaching and research for 2004/05 and beyond is unclear. While supporting the overall aim of widening access, I am concerned that the proposals that new funds for additional student numbers are focussed towards foundation degrees and that the higher cost per student of foundation degrees is to be financed by reducing funding per student on traditional degrees. The School recognises the concerns of students that arise from the potential removal of the current cap on undergraduate fees from 2006/07 onwards for home and EU undergraduate students and remains committed to ensuring that students of the highest ability and potential are able to study at LSE regardless of their background and financial circumstances. The School also recognises that achievement of its academic aims requires continuing investment and resources. The School will continue to work with the government for the development and implementation of legislation that best supports these aims in both LSE and the sector as a whole.

Campaign for LSE

This has been a productive year for the School's development activities. Our expectation is that productivity will continue, allowing the School to add to its endowment, to support new and renovated facilities and to create special academic projects. The cultivation of alumni nationally and internationally is a crucial element in this process, one which can bring benefits to the School beyond the purely financial.

The Campaign for LSE – launched in May 2001 through the joint efforts of the Office of Development and Alumni Relations and the LSE Foundation in New York – has now reached the £60m mark. The Campaign counting total gifts and pledges (including North America) for the financial year to 31 July 2003 was £13.3m.



Dr Alejandro Toledo, President of Peru,
LSE lecture 6 December 2002

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The cash receipts for this period (including North America) was £7.8m. The Annual Fund reached £245,000, topping last year's effort and the newly inaugurated Legacy Programme produced over 60 documented bequests to the School with a face value of over £1 million.

Summer Schools

The Summer Schools programme, now in its 15th year, provides another important source of income for LSE. With over 2,500 students enrolled, the 2003 programme generated a surplus of almost £1.2 million for the School, and an additional £0.8 million in salary enhancement for LSE faculty.

Academic Developments

Intellectual Development

The School has continued to promote a strongly interdisciplinary approach to innovation in teaching and research. New interdisciplinary programmes aimed at cutting across departmental boundaries include the Human Rights Project, the Public Policy programme, BIOS, an interdisciplinary Research Centre investigating the social, legal, ethical, political and economic aspects of the life sciences and biomedicines, and the new department of Media and Communications.

Plans for further expansion of the School's management programmes continue to be developed. Additional programmes under active consideration are a new MSc in Management Accounting and Finance, an MSc in Public Sector Management and a Diploma in Business Studies/Management.

Planning continues for the Applied Interdisciplinary Research Laboratory (AIREAL), a purpose-built research facility located in Tower Two which brings together the LSE's research centres in economics, finance, industrial relations, social policy and demography to work on major social and economic policy issues. AIREAL was largely funded by a £6.0m grant awarded by the Economic and Social Research Council (ESRC), with additional money from the government and Wellcome Trust's Joint Infrastructure Fund.

Research

The School's success in the 2001 Research Assessment Exercise (RAE) has contributed, in part, to the improvement in the School's current financial situation, and served to enhance the School's international reputation as a leading research centre for the social sciences. But with the possible introduction of new research assessment procedures following the Roberts' Review, and with the possible concentration

of research funds outlined in the White Paper, there is no room for complacency. LSE aims to be number one in the next RAE, whatever the form of assessment.

As a crucial step in achieving top results in the next RAE, one of the main priorities of the RAE Strategy Committee has been to analyse and co-ordinate the research profiles of all LSE departments, institutes and research centres. These efforts have identified areas in the School's research portfolio that will be strengthened in advance of the next RAE, and the costs of doing so have been built into the School's Business Model.

The Group for Academic Innovation (GAIN) had a productive year identifying potential areas in which the School's research efforts may develop. Recent discussions on the School's research portfolio have included the areas of cognition and artificial intelligence, organisational behaviour, comparative religion, and comparative work on intellectual property.

Learning and Teaching and the Student Experience

There have been a number of significant achievements in the past year.

In January, the School's Teaching and Learning Centre won accreditation from an Institute for Learning and Teaching team for the LSE's Teacher Accreditation Programme. The Centre offers a range of developmental and support services for members of the teaching staff, and departmental development following internal and external teaching quality assessment exercises.

The School's Language Centre has expanded considerably, offering English language courses to pre-registrands and courses in nine modern languages to current students. It also conducts, within the fee already paid, language courses in the undergraduate programme. In 2002/03 the Centre generated a surplus of £279k, some £70k over target.

A major review of the Careers Service was conducted this year. LSE continues to buy both Careers Adviser time and several careers services from the University of London, with the entire service housed on LSE premises. The Careers Service moved to a new on-site location, more than doubling its previous space.

The new Student Services Centre completed a very busy first year, based in the heart of the School, on the ground floor of the Old Building. An Advice and Reception Team was established to be the main point of contact with students, and staff have dealt with every one of the myriad issues raised with them. The same staff run the student mentoring service, with the Students'



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Union. As a precaution, we also began to establish coherent procedures for handling cases of self-harm.

The School continues to place importance on the acquisition of student halls of residence. Subject to a planning consent, 360 additional en suite beds will come on stream near Liverpool Street station in September 2005 in an alliance with Shaftesbury Housing Association.

Information Services

In terms of supporting LSE's educational mission, the School will continue to experiment with building a wider educational network beyond the confines of the campus, and this includes the development of web-based courses and programmes. Already the Centre for Learning and Technology supports a number of the School's courses, providing developmental learning support services.

Building the School Community

Widening Participation

LSE welcomed the White Paper's emphasis on inclusiveness, and the promotion of access and widening participation has been a strategic priority of the School for several years now. LSE has been active in pioneering new outreach schemes devoted to promoting access such as Saturday Schools; Sunday Schools; Winter Schools; Summer Schools; and mentoring schemes, all of which aim at developing an aspiration to higher education amongst state school pupils in the London area. One of this year's highlights saw LSE alumna Cherie Booth QC return to the School to present certificates to London sixth-formers attending Winter Schools for budding students of law and economics.

A further White Paper initiative that will shape the widening participation debate is the government policy on variable fees for Home/EU first degree students. Related to this initiative will be LSE's relationship with the Office for Fair Access (OFFA). The School remains committed to ensuring that students of the highest academic ability and potential are able to study at LSE, regardless of their background or financial circumstances.

The School's long standing commitment to access and retention both in the UK and internationally is demonstrated by its scheme of bursaries and scholarships, the total budget for which in 2002/03 was some £4.3m increasing to nearly £4.8m in 2003/04.

Diversity

The School has always prided itself on its culture of openness and diversity, and this year saw several important developments. The Race Equality Working Group produced the School's Race Equality Policy and Plan which was firmly embedded into all areas of School life and the first dedicated Race Equality Officer was appointed to oversee implementation of the Policy and Plan. The Disability Equality Working Group was set up to oversee the implementation of the Special Educational Needs and Disability Act 2001 (SENDA), and the ongoing implementation of the Disability Discrimination Act 1995 (DDA), and a revised School policy on disability was adopted at the beginning of the 2002/03 session, to devise the School's approach to and monitor the range of consequent measures to ensure compliance with the legislation.

Links with the Wider Community

Strategic Alliances

The School continues to develop its institutional alliance with Columbia University in New York to promote our shared research and teaching interests in public policy and international relations. This alliance to date has produced a range of initiatives such as a joint Masters degree in Public Administration funded by the US National Science Foundation and UK Joint Information Systems Committee; a project on the use of digital resources in the teaching and learning of social and cultural anthropology; and joint funding for a new academic appointment – the Alliance Research Professor – to develop collaborative research projects and joint fundraising initiatives. At least two more Masters programmes, and a joint research centre are planned, and joint fundraising specifically for scholarships for students enrolling in joint LSE and Columbia programmes.



Dr Luiz Inácio Lula da Silva, President of Brazil, LSE lecture 14 July 2003

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The School has also worked with the New York University Stern School of Business and with HEC School of Management, Paris, to develop the successful TRIUM EMBA and further work with HEC will see an imminent launch of a double degree programme, allowing students to achieve both the HEC MBA and an LSE MSc. The first teaching programme with Sciences-Po (Fondation Nationale des Sciences Politiques) has been launched, the dual Diplome/MSc in the Practice of International Affairs. LSE is also developing a two-year dual degree programme in Global Media and Communications with the Anneberg School, University of Southern California. LSE is also actively exploring alliance opportunities in China.

Corporate Relations

The Director of Corporate Relations has been active in continuing to forge links with the wider community. A primary objective over the coming year is to raise the visibility of the School's profile in the City of London.

External Relations and Marketing

The basic position of LSE is strong, given that it remains pre-eminent in its own niche. LSE is one of the few universities in the world with a global brand name, and protecting and enhancing its worldwide reputation remains a priority for all staff. The School is careful not to undertake any activities that would reduce or tarnish the value of this great asset.

A crucial risk consideration when assessing potential collaborations or new ventures is the impact on the LSE brand. The current strength of the LSE's reputation is evidenced by the continued strong demand for student places, from both home, EU and overseas students, and in the School's ability to attract and retain world-class faculty.

Physical Environment

This year has witnessed the completion of several major campus development projects. The John Watkins Plaza and cafe were officially opened in June, complementing the major redevelopment of the Lionel Robbins Building. Additional environmental improvements include the pedestrianisation of Houghton Street, Clare Market and St Clements.

The School has also been successful in securing government funding for the development of its research facilities for £6m for the development of AIREAL and a new £9.1m grant from the second round of the Science Research Infrastructure Fund (SRIF). During the year we acquired the freehold of an additional 2,700 square metres of space, Mobil Court Tower 2, which was partly funded by

the SRIF funds and SRIF2 will enable the purchase of Mobil Court, Tower 3.

It is crucial that LSE's expansion is accompanied by adequate space development and quality enhancement. During the year, the Estates Division undertook a comprehensive space audit from which a range of key factors for possible incorporation into an updated estates strategy was identified.

In June, a draft Estates Master Plan containing eleven options was submitted to Council by the Estates Strategy Committee. Council endorsed the overall strategic assumptions upon which the plan was made, which included an analysis of the existing estate, comparison with other world-class facilities, the ability to accommodate adequate growth and the quality of facilities and environment and agreed to debate further three variations on one of the options in October 2003 with a view to agreeing arrangements for consultation within the School about major long term strategic choices for development of the estate.

Support Services

All the School's support services have continued to develop the quality and range of the services they provide to staff and students, consistent with the objectives in the School's Strategic Plan. Particular efforts have been made to ascertain the views of, and develop responsiveness to, the needs of service users. For example, library users were consulted in the planning of a revised library management system to enable academic requirements to be kept pace with more flexibly, and more consultation is planned on funding arrangements. New arrangements have been introduced to enable central administrative services to respond more readily to the concerns of academic departments. Within the Central Administration, a wide-ranging set of initiatives has been put in place to enhance operational effectiveness, including steps to promote the more flexible use of resources to support key front line services and areas of strategic priority. These include the adoption of a set of service values, which place a strong emphasis on transparency, consultation with staff, devolution of decision making responsibility to the lowest appropriate level, staff development particularly through coaching, and self-review. More systematic steps are being made to benchmark performance in order to assess relative effectiveness and to develop an understanding of the comparative cost of the central administrative services.



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Human Resources and Staff Development

Enhancing the staff experience is a continuing priority and a key factor in informing the Personnel Strategy submitted to HEFCE this year. The key drivers of the School's Personnel Strategy are the recruitment and retention of outstanding faculty and administrative staff; the review of the pay and non-pay benefits for academic staff; staff development; and diversity. HEFCE's Rewarding and Developing Staff initiative has assisted the School in funding several key developments. The low levels of pay for both academic and academic support staff continue to be a matter of concern. A paper was presented to Council in May outlining what action the School had taken in this area.

The Central Administration was substantially awarded 'Investors in People' status in March. As a result, management competences and commitment to customer service have been enhanced across the administration, leading to clearer communication channels and more efficient trans-divisional working. The School's commitment to championing diversity issues was evidenced by the launch of a 'Diversity Toolkit' in May as a means of enabling individuals and organisations to achieve their full potential.



Hon Tyrone Fernando, Minister of Foreign Affairs, Sri Lanka, LSE lecture 5 February 2003

Governance and Management

The past year saw the implementation of the first phase of the wide-ranging recommendations of the 2002 Effectiveness Review of Council. The review's objective was to ensure that Council fulfilled its obligations as a non-executive Board of Directors, especially in relation to oversight of the educational character and mission of the School. As a result, a range of practical reforms has been introduced that will enable the Council to exercise its oversight of the strategic direction of the School, such as improving information flows to Council members, more structured

provision for debating and monitoring of strategic objectives and progress in achieving them and the development of better channels of communication with the academic staff. Through development of the School's Risk Register, Council is being enabled to oversee the more systematic embedding of risk management in the functions of managers and the business of committees. An annual legal compliance review has been established, with the School's solicitors making a presentation to Council on the implications for them as Company Directors of compliance with an ever-increasing range of statutory requirements. Additional resources have been put into health and safety and ensuring compliance with the Race Relations (Amendment) Act. A more systematic approach of obtaining advance intelligence on new legal developments and landmark cases and assigning responsibility for implementing and monitoring agreed plans of action for compliance was developed during the year and is now being introduced.

To enhance the efficiency of Council and its committees, detailed revisions have been made to committees' terms of reference, information flows from Council to other bodies improved, and procedures developed to ensure that appointments to Court and Council and succession planning are undertaken in accordance with best practice and that considerations of the representation of women and minorities properly taken into account.

The Effectiveness Review Group recommended that as an item for possible future consideration, the future management structure of the School be reviewed. An opportunity to undertake this review recommendation arose from the decision of Christine Challis to take early retirement in April 2003 after 20 years as School Secretary, and the drawing to a close of Tony Giddens' period as Director. A Working Group made recommendations on an appropriate long-term management structure for the School and the Director's role in that structure. Council approved recommendations that the roles and responsibilities of the Deputy Directors be clarified and for a future senior management structure of the central administration. An Implementation Group was appointed to put these proposals into practice.

Howard Davies will report to Council in January 2004 about the long-term structure of his senior management team. The principal changes to the senior management structure of the Central Administration were that from 1 October 2003, Adrian Hall, previously Deputy Secretary, became the new School Secretary and Director of Administration. The former Director of Finance, Andrew Farrell, became Director of Finance and Facilities, taking over responsibility

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for running Estates, Residential Services and Catering, Security and Portering and a new facilities management unit. While Andrew retained over all control of finance, Mike Ferguson became Head of the Finance Division and Deputy Finance Director. Neil Gregory, former head of the Research Project and Development Division, became the new Director of Business and Enterprise.

These recommendations, together with a set of further actions recommended by the Group will, I believe, place the School in a strong position to be able to respond swiftly and flexibly to new challenges and opportunities, enable the best possible development and delivery of services to all members of the School community and establish a better balance of workload and responsibilities between senior officers of the School.

The new academic committee structure introduced last year is bedding down well and is achieving its primary objectives of promoting effective decision making through a leaner more efficient committee structure which continues to respect the established School traditions of participation and consultation.

Conclusion

At this time, the London School of Economics and Political Science is in a strong position to address the uncertainties of the future and to continue to achieve its fundamental purpose: to be the university centre for intellectual excellence in the social sciences.

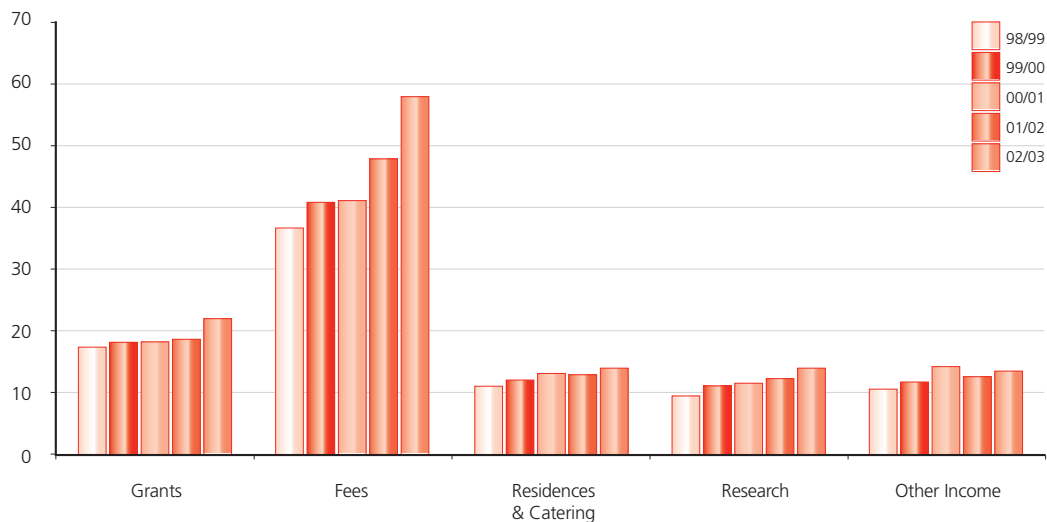
The School's success is built on team effort. There are many people to thank for their dedication to realising this goal: the academic staff for their rigorous pursuit of the highest academic standards; the support staff; our students; the Vice Chairmen of the Court of Governors, Bernard Asher and Bryan Sanderson, and all the Governors, the Deputy Directors Judith Rees, Henrietta Moore and Ray Richardson; our many friends, alliance partners, alumni, corporate and individual sponsors; and finally Tony Giddens and Christine Challis, for their outstanding contributions to the life and work of LSE.

Anthony Grabiner
November 2003

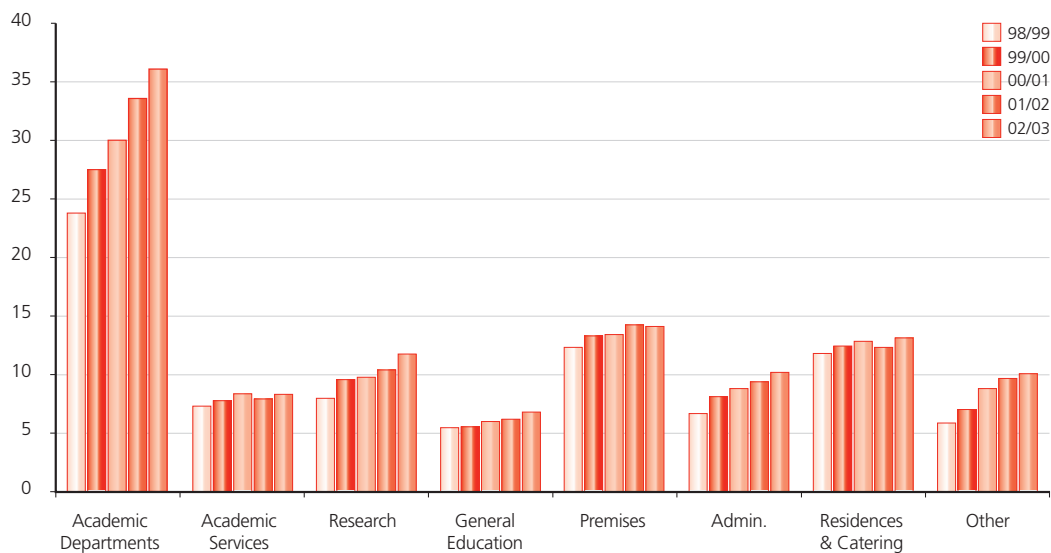


FIVE YEAR ANALYSIS OF **INCOME AND EXPENDITURE**

INCOME £m



EXPENDITURE £m



REPORT OF THE DIRECTORS

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 relevant to facilitate the above objectives. Such additional activities include the provision of catering and accommodation services together with the publication of 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 is given in the Report of the Chairman of the Court of Governors, on pages 2–9 of these accounts.

Subsidiary Companies

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

Fixed Assets

The market value of the School's Land and Buildings is substantially higher than the historical cost shown in Balance Sheet. The buildings were insured on a cost reinstatement basis at the year end of £359m (Net Book Value £150m).

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 on page 36.



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 14 to 29 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.

(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 11.

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 FRS9.

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

Freehold buildings are depreciated over the remainder of their useful economic lives which range between 13 and 79 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 when 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. No impairment has been charged to the 2002/03 accounts.

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 at least £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.

(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.

ACCOUNTING POLICIES

(i) Residences 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 which are primarily catering supplies 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.

(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 Second Pension (S2P) Scheme. The liabilities 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

| NOTES | 2003 £'000 | 2002 £'000 | |
|---|---------------|----------------|----------------|
| INCOME | | | |
| Funding council grants | 1 | 22,011 | 18,748 |
| Tuition fees and education contracts | 2 | 57,928 | 48,007 |
| Research grants and contracts | 3 | 14,098 | 12,205 |
| Other income | 4 | 24,115 | 23,808 |
| Endowment and investment income | 5 | 3,432 | 1,576 |
| Total income | | 121,584 | 104,344 |
| EXPENDITURE | | | |
| Staff costs | 6 | 62,051 | 56,609 |
| Other operating expenses | 7 | 41,577 | 39,923 |
| Depreciation | | 2,901 | 2,810 |
| Interest payable | 8 | 3,810 | 4,173 |
| Total expenditure | | 110,339 | 103,515 |
| Surplus on continuing operations after depreciation of tangible fixed assets at cost and before tax | | 11,245 | 829 |
| Taxation | | – | – |
| Surplus on continuing operations after depreciation of assets at cost and tax | | 11,245 | 829 |
| The surplus for the year has been allocated as follows | | | |
| General endowments | | 87 | (539) |
| Reserves | 21 | 11,158 | 1,368 |
| | | 11,245 | 829 |

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 £11,245,000, a profit of £11,081,000 was dealt with by the Company.

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

STATEMENT OF **TOTAL RECOGNISED GAINS AND LOSSES**

| | NOTES | 2003 £'000 | 2002 £'000 |
|---|-------|---------------|----------------|
| Surplus on continuing operations after depreciation of assets at cost and tax | | 11,245 | 829 |
| Revaluation of investments within fixed assets | 20 | – | (1,351) |
| New endowments | 19 | 3,415 | 2,906 |
| Revaluation of endowment asset investments | 19 | 309 | (4,712) |
| Endowment investment income for the year | 19 | 1,064 | 1,044 |
| Endowment expenditure for the year | 19 | (3,795) | (3,810) |
| Total recognised gains and losses relating to the year | | 12,238 | (5,094) |
| RECONCILIATION | | | |
| Opening reserves and endowments | | 73,347 | 78,441 |
| Total recognised gains and losses for the year | | 12,238 | (5,094) |
| Closing reserves and endowments | | 85,585 | 73,347 |

BALANCE SHEETS

| | NOTES | Group 2003 £'000 | School 2003 £'000 | Group 2002 £'000 | School 2002 £'000 |
|--|-------|------------------------|-------------------------|------------------------|-------------------------|
| Fixed Assets | | | | | |
| Tangible assets | 9 | 149,774 | 149,064 | 139,474 | 138,689 |
| Investments | 10 | 6,851 | 6,851 | 6,764 | 6,764 |
| Investments in subsidiary undertakings | 11 | – | 150 | – | 150 |
| Investments in joint ventures | 12 | 38 | – | 41 | – |
| | | 156,663 | 156,065 | 146,279 | 145,603 |
| Endowment Assets | 13 | 35,843 | 35,843 | 34,763 | 34,763 |
| Current Assets | | | | | |
| Stock | | 82 | 82 | 71 | 71 |
| Debtors | 14 | 12,004 | 12,561 | 10,138 | 11,136 |
| Bank deposits | 15 | 2,000 | 2,000 | – | – |
| Cash at bank and in hand | 15 | 10,085 | 9,317 | 7,179 | 6,647 |
| | | 24,171 | 23,960 | 17,388 | 17,854 |
| Creditors: amounts falling due within one year | 16 | (22,815) | (22,562) | (23,756) | (23,938) |
| Net current assets/ (liabilities) | | 1,356 | 1,398 | (6,368) | (6,084) |
| Total assets less current liabilities | | 193,862 | 193,306 | 174,674 | 174,282 |
| Creditors: amounts falling due after more than one year | 16 | (63,148) | (63,148) | (64,567) | (64,567) |
| NET ASSETS | | 130,714 | 130,158 | 110,107 | 109,715 |
| Deferred capital grants | 18 | 45,129 | 45,129 | 36,760 | 36,760 |
| Endowments | | | | | |
| Specific | 19 | 29,909 | 29,909 | 28,916 | 28,916 |
| General | 19 | 5,934 | 5,934 | 5,847 | 5,847 |
| | | 35,843 | 35,843 | 34,763 | 34,763 |
| Reserves | | | | | |
| Revaluation reserve | 20 | – | – | – | – |
| General reserve | 21 | 49,742 | 49,186 | 38,584 | 38,192 |
| | | 49,742 | 49,186 | 38,584 | 38,192 |
| TOTAL | | 130,714 | 130,158 | 110,107 | 109,715 |

The financial statements on pages 12 to 29 were approved by the Court of Governors on 11th December 2003 and were signed on its behalf by:

CONSOLIDATED CASH FLOW STATEMENT

| | NOTES | 2003 £'000 | 2002 £'000 |
|---|-------|-----------------|-----------------|
| Cash flow from operating activities | 22 | 12,888 | 10,209 |
| Returns on investments and servicing of finance | 23 | (1,722) | (2,273) |
| Taxation | | – | – |
| Capital expenditure and financial investment | 24 | (4,708) | (2,364) |
| Management of liquid resources | 25 | (2,000) | (6,000) |
| Financing | 26 | (1,405) | (235) |
| Increase/(decrease) in cash in the period | | 3,053 | (663) |
| Reconciliation of net cash flow to movements in net funds/debt | | | |
| Increase/(Decrease) in cash in the period | | 3,053 | (663) |
| Cash inflow from new secured loans | | (1,000) | (2,150) |
| Cash outflow/(inflow) from liquid resources | | 2,000 | 6,000 |
| Changes in net debt resulting from cash flows | | 2,397 | 2,338 |
| Movements in net funds in period | | 6,450 | 5,525 |
| Net debt at 1 August 2002/2001 | | (53,078) | (58,603) |
| Net debt at 31 July 2003/2002 | | (46,628) | (53,078) |

NOTES TO THE ACCOUNTS

| | NOTES | 2003 £'000 | 2002 £'000 |
|---|-------|---------------|---------------|
| 1 FUNDING COUNCIL GRANTS | | | |
| From the HEFCE | | | |
| Block Recurrent | | 19,499 | 17,226 |
| Library Grants | | 234 | 234 |
| 6th Form Summer School | | 60 | 62 |
| Higher Education Innovations Fund | | 187 | 191 |
| Recruitment and Retention | | 544 | 370 |
| Project Capital Round 2 – Learning and Teaching | | 421 | – |
| Other Specific Grants | | 206 | 205 |
| Deferred Capital Grants Released in Year | 18 | 289 | 220 |
| | | 21,440 | 18,508 |
| From the Joint Information Systems Committee | | | |
| | | 571 | 240 |
| | | 22,011 | 18,748 |
| 2 TUITION FEES AND EDUCATION CONTRACTS | | | |
| Tuition Fees | | | |
| – Home/EC Students | | 14,444 | 11,967 |
| – Overseas Students | | 39,749 | 33,335 |
| TRIUM MBA | | 1,072 | – |
| Short Courses | | 2,562 | 2,607 |
| Examination and Other Fees | | 101 | 98 |
| | | 57,928 | 48,007 |
| 3 RESEARCH GRANTS AND CONTRACTS | | | |
| Research Councils | | 4,679 | 3,977 |
| Government Departments | | 2,708 | 1,996 |
| Charities | | 1,584 | 1,530 |
| European Community | | 1,346 | 1,161 |
| Other Outside Bodies | | 2,246 | 1,883 |
| Specific Endowments | 5 | 1,535 | 1,658 |
| | | 14,098 | 12,205 |
| 4 OTHER INCOME | | | |
| Residences and Catering | | 13,998 | 12,966 |
| Rental Income | | 1,654 | 1,468 |
| Overheads Reimbursed | | 185 | 165 |
| Publications | | 711 | 737 |
| Library | | 644 | 554 |
| External Study Programme | | 1,340 | 1,203 |
| Consultancy Services | | 2,925 | 3,054 |
| VAT Partial Exemption Scheme | | 311 | 621 |
| Application Fees | | 282 | 355 |
| Departmental Outside Funds | | 809 | 1,489 |
| Insurance Receipt | | – | 50 |
| Research Balances Transferred to Reserves | | 459 | 598 |
| Donations towards Estates Projects | | 412 | 252 |
| Deferred Capital Donations | 18 | 234 | 218 |
| Sundry | | 151 | 78 |
| | | 24,115 | 23,808 |
| 5 ENDOWMENT AND INVESTMENT INCOME | | | |
| Transferred from Specific Endowments | 19 | 3,795 | 3,810 |
| Donations for General Purposes | 19 | 22 | 1 |
| Investment of General Endowments | | | |
| – Interest and Dividends Receivable | 19 | 137 | 177 |
| – Profit/(Loss) on Revaluation | 19 | 47 | (556) |
| Investment of General Funds | | | |
| – Interest and Dividends Receivable | | 879 | 632 |
| – Profit/(Loss) on Revaluation | | 87 | (830) |
| Research Grants and Contracts funded by Specific Endowments transferred to Note 3 | 3 | (1,535) | (1,658) |
| | | 3,432 | 1,576 |

NOTES TO THE ACCOUNTS

| | 2003 £'000 | 2002 £'000 |
|-------------------------------------|---------------|---------------|
| 6 STAFF COSTS | | |
| Total staff costs for the year were | | |
| Wages and Salaries | 52,538 | 48,117 |
| Social Security Costs | 4,334 | 3,817 |
| Other Pension Costs | 5,179 | 4,675 |
| | 62,051 | 56,609 |

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

| | 2003 Number | 2002 Number as restated |
|-------------------------------------|----------------|-------------------------------|
| Academic Departments | 691 | 660 |
| Academic Services | 175 | 181 |
| Research Grants and Contracts | 228 | 203 |
| General Educational Expenditure | 4 | 5 |
| Premises | 83 | 82 |
| Administration and Central Services | 317 | 278 |
| Staff and Student Facilities | 23 | 20 |
| Other Operating Expenditure | 55 | 54 |
| Student Residences | 121 | 144 |
| Central Catering | 37 | 37 |
| | 1,734 | 1,664 |

Some of the 2002 Staff Number figures have been re-stated to ensure comparability with 2003.

| | 2003 £'000 | 2002 £'000 |
|---|---------------|---------------|
| DIRECTORS' REMUNERATION | | |
| Directors | | |
| Emoluments (2002/03 – 10 Directors; 2001/02 – 10 Directors) | 752 | 724 |
| Retirement benefits are accruing to 10 directors under a defined benefit scheme, USS. | | |
| Highest paid director | | |
| Emoluments | 196 | 176 |
| Defined benefit pension scheme | | |
| – Accrued pension at end of year | 90 | 81 |
| – Accrued lump sum at end of year | 268 | 243 |
| HIGHER PAID STAFF | | |
| Emoluments of the Director | 196 | 176 |
| Employer's pension contributions on behalf of the Director | – | 2 |
| Total emoluments of the Director | 196 | 178 |

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

Two senior administrative staff took early retirement and amounts of £54,000 and £67,000 were paid into their USS pension schemes to buy added years of service.

NOTES TO THE ACCOUNTS

6 STAFF COSTS (continued)

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

| | Higher Paid Employees | |
|---------------------|-----------------------|----------------|
| | 2003 Number | 2002 Number |
| £70,001 – £80,000 | 31 | 23 |
| £80,001 – £90,000 | 10 | 13 |
| £90,001 – £100,000 | 8 | 7 |
| £100,001 – £110,000 | 8 | 5 |
| £110,001 – £120,000 | 2 | – |
| £120,001 – £130,000 | – | 1 |
| £130,001 – £140,000 | – | 1 |
| £140,001 – £150,000 | 1 | – |
| £150,001 – £160,000 | 1 | – |
| | 61 | 50 |

Total remuneration includes salaries and other additional payments relating to Summer School, TRIUM, and consultancy and executive education delivered via Enterprise LSE. It does not include payments for private consultancy or income from outside LSE and its subsidiaries. The 2002 figures have been re-analysed to be produced on a comparable basis to 2003.

| | 2003 £'000 | 2002 £'000 |
|-------------------------------------|---------------|---------------|
| 7 OTHER OPERATING EXPENSES | | |
| Academic Departments | 3,367 | 3,268 |
| Library and IT Services | 3,829 | 3,511 |
| Research Grants and Contracts | 2,960 | 2,424 |
| General Educational Expenditure | 6,043 | 6,020 |
| Premises | 9,771 | 10,247 |
| Administration and Central Services | 2,315 | 2,151 |
| Staff and Student Facilities | 245 | 371 |
| Residences and Catering | 7,459 | 6,494 |
| Miscellaneous | 5,588 | 5,437 |
| | 41,577 | 39,923 |

General Educational Expenditure of £6,043,000 includes the write-back as an Exceptional Item of £489,000 of a Doubtful Debt provision. In previous years the School had a policy of making a 100% provision against long term loans made to students. This provision has now been re-assessed based on the experience of the collectability of these debts over previous years.

| | 2003 £'000 | 2002 £'000 |
|--|---------------|---------------|
| Other operating expenses include | | |
| Auditors' remuneration – external audit | 45 | 43 |
| Auditors' remuneration – other services | 7 | 3 |
| 8 INTEREST PAYABLE | | |
| Loans repayable within five years | 104 | 24 |
| Loans not wholly repayable within five years | 2,877 | 3,241 |
| | 2,981 | 3,265 |
| Finance Leases | 829 | 908 |
| | 3,810 | 4,173 |

NOTES TO THE ACCOUNTS

| | Land and Buildings | | Equipment £'000 | Total £'000 |
|--------------------------------|--------------------|----------------------------|--------------------|----------------|
| | Freehold £'000 | Long Leasehold £'000 | | |
| 9 TANGIBLE FIXED ASSETS | | | | |
| Group | | | | |
| COST | | | | |
| As at 1 August 2002 | 126,632 | 16,911 | 6,314 | 149,857 |
| Additions in Year | 12,713 | – | 466 | 13,179 |
| Disposals | – | – | (180) | (180) |
| As at 31 July 2003 | 139,345 | 16,911 | 6,600 | 162,856 |
| DEPRECIATION | | | | |
| As at 1 August 2002 | 6,028 | 1,242 | 3,113 | 10,383 |
| Charge for Year | 1,810 | 320 | 722 | 2,852 |
| Disposals | – | – | (153) | (153) |
| As at 31 July 2003 | 7,838 | 1,562 | 3,682 | 13,082 |
| NET BOOK VALUE | | | | |
| As at 1 August 2002 | 120,604 | 15,669 | 3,201 | 139,474 |
| As at 31 July 2003 | 131,507 | 15,349 | 2,918 | 149,774 |
| School | | | | |
| COST | | | | |
| As at 1 August 2002 | 126,632 | 16,261 | 6,044 | 148,937 |
| Additions in Year | 12,713 | – | 459 | 13,172 |
| Disposals | – | – | (180) | (180) |
| As at 31 July 2003 | 139,345 | 16,261 | 6,323 | 161,929 |
| DEPRECIATION | | | | |
| As at 1 August 2002 | 6,028 | 1,207 | 3,013 | 10,248 |
| Charge for Year | 1,810 | 309 | 651 | 2,770 |
| Disposals | – | – | (153) | (153) |
| As at 31 July 2003 | 7,838 | 1,516 | 3,511 | 12,865 |
| NET BOOK VALUE | | | | |
| As at 1 August 2002 | 120,604 | 15,054 | 3,031 | 138,689 |
| As at 31 July 2003 | 131,507 | 14,745 | 2,812 | 149,064 |

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 £12,505,000 (2001/02 – £12,670,000) which is financed by a finance lease. The depreciation charge was £165,000 (2001/02 – £165,000).

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.

NOTES TO THE ACCOUNTS

| | 2003 £'000 | 2002 £'000 |
|---|---------------|---------------|
| 10 INVESTMENTS WITHIN FIXED ASSETS – GROUP AND SCHOOL | | |
| Movement in the year | | |
| Balance at 1st August | 6,764 | 8,945 |
| Additions | 197 | 16,018 |
| Disposals | (197) | (16,018) |
| Appreciation/(Depreciation) of assets including reinvested profits on sales | 87 | (2,181) |
| Balance at 31st July | 6,851 | 6,764 |
| Analysis of closing balance | | |
| UK Equities | 3,441 | 3,267 |
| Overseas Equities | 2,455 | 2,255 |
| UK Corporate Bonds | 576 | 743 |
| Other | 379 | 395 |
| Money Market Funds | – | 104 |
| Invested with BGI | 6,851 | 6,764 |

| | Group 2003 £'000 | School 2003 £'000 | Group 2002 £'000 | School 2002 £'000 |
|--|------------------------|-------------------------|------------------------|-------------------------|
| 11 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS | | | | |
| Subsidiary Companies | – | 150 | – | 150 |

Principal subsidiaries are:

| Name | Nature of Business | Shareholding £1 Ordinary Shares | Number of Shares |
|--------------------|----------------------|------------------------------------|------------------|
| Enterprise LSE Ltd | consultancy | 100% | 150,000 |
| LSE LETS Ltd | Vacation Lettings | 100% | 2 |
| VELSE Ltd | Fuel and Power Sales | 100% | 2 |

All of the above are registered in England.

The results of the following subsidiaries are also consolidated:

LSE Foundation Inc. (registered in the United States) has no share capital but is owned by the School and carries out fund-raising activities in the United States.

Enterprise LSE Charitable Trust does not have a share capital but is controlled by a trust deed requiring all income to be distributed to the LSE Group.

Melton Investments Ltd (Registered in Guernsey) is wholly owned by the School and has a share capital of US\$22,000, is dormant and is currently in Members Voluntary Liquidation.

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. A new subsidiary company, Enterprise LSE Cities Ltd, has been established from 1st August 2003 as a 100% owned subsidiary of Enterprise LSE Ltd. It is registered in England and its main activity is consultancy services.

| | Group 2003 £'000 | School 2003 £'000 | Group 2002 £'000 | School 2002 £'000 |
|---|------------------------|-------------------------|------------------------|-------------------------|
| 12 INVESTMENTS IN JOINT VENTURES | | | | |
| Joint Ventures | 38 | – | 41 | – |

NOTES TO THE ACCOUNTS

12 INVESTMENTS IN JOINT VENTURES (continued)

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 2002/03 but the 2001/2002 Accounts show the School's share of Turnover to be £42,000 and Operating Loss to be £1,000. These have not been disclosed on the face of the Income and Expenditure Account due to immateriality.

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

| | 2003 £'000 | 2002 £'000 |
|--|---------------|---------------|
| 13 ENDOWMENT ASSETS – GROUP AND SCHOOL | | |
| Movement in the year | | |
| Balance at 1st August | 34,763 | 39,874 |
| Additions | 5,383 | 42,294 |
| Disposals | (4,610) | (41,798) |
| Appreciation/(Depreciation) of assets including reinvested profits on sales | 356 | (5,560) |
| Depreciation of Freehold Property | (49) | (47) |
| Balance at 31st July | 35,843 | 34,763 |
| Analysis of closing balance | | |
| UK Equities | 15,210 | 14,325 |
| Overseas Equities | 3,937 | 3,343 |
| Gilts | 1,860 | 2,032 |
| UK Corporate Bonds | 4,796 | 4,956 |
| Other | 461 | 441 |
| Money Market Funds | 392 | 577 |
| Invested with BGI | 26,656 | 25,674 |
| Freehold Property | 2,325 | 2,374 |
| Uninvested Cash | 6,862 | 6,715 |
| | 35,843 | 34,763 |

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 UUK's Headquarters in Tavistock Square.

| | Group 2003 £'000 | School 2003 £'000 | Group 2002 £'000 | School 2002 £'000 |
|---|------------------------|-------------------------|------------------------|-------------------------|
| 14 DEBTORS | | | | |
| Amounts falling due within one year | | | | |
| Trade Debtors | 3,625 | 3,104 | 4,327 | 3,747 |
| Research Balances | 2,126 | 2,126 | 2,207 | 2,207 |
| Amounts due from Subsidiary Undertakings | – | 1,308 | – | 1,934 |
| Staff Loans for Housing | 17 | 17 | 20 | 20 |
| Other Debtors | 4,584 | 4,523 | 2,423 | 2,357 |
| Prepayments and Accrued Income | 1,274 | 1,105 | 987 | 697 |
| | 11,626 | 12,183 | 9,964 | 10,962 |
| Amounts falling due after more than one year | | | | |
| Trade Debtors | 244 | 244 | – | – |
| Staff Loans for Housing | 73 | 73 | 109 | 109 |
| Prepayments and Accrued Income | 61 | 61 | 65 | 65 |
| | 378 | 378 | 174 | 174 |
| TOTAL | 12,004 | 12,561 | 10,138 | 11,136 |

NOTES TO THE ACCOUNTS

| | Group 2003 £'000 | School 2003 £'000 | Group 2002 £'000 | School 2002 £'000 |
|------------------------------------|------------------------|-------------------------|------------------------|-------------------------|
| 15 CASH AT BANK AND IN HAND | | | | |
| Fixed Term Deposits | 2,000 | 2,000 | – | – |

Included within Cash is £1,003,000 (2002: £1,227,000) held on behalf of the TRIUM MBA Joint Arrangement of which the School is a member. The element relating to other members of the Joint Arrangement is recorded in Creditors and Accruals and Deferred Income.

| | Group 2003 £'000 | School 2003 £'000 | Group 2002 £'000 | School 2002 £'000 |
|--|------------------------|-------------------------|------------------------|-------------------------|
| 16 CREDITORS | | | | |
| Amounts falling due within one year | | | | |
| Bank Loans | 2,427 | 2,427 | 2,405 | 2,405 |
| Trade Creditors | 1,694 | 1,685 | 1,826 | 1,826 |
| Research Balances | 4,537 | 4,537 | 4,416 | 4,416 |
| Short Courses | 24 | 24 | 4 | 4 |
| Amounts due to Subsidiary Undertakings | – | 889 | – | 1,179 |
| Taxation and Social Security | 1,833 | 1,822 | 1,643 | 1,645 |
| Other Creditors | 2,549 | 2,513 | 1,974 | 1,971 |
| TRIUM MBA Joint Arrangement | 22 | 22 | 2,755 | 2,755 |
| Building Works | 1,071 | 1,071 | 1,546 | 1,546 |
| Accruals and Deferred Income | 8,658 | 7,572 | 7,187 | 6,191 |
| | 22,815 | 22,562 | 23,756 | 23,938 |
| Amounts falling due after one year | | | | |
| Bank Loans | 48,700 | 48,700 | 50,127 | 50,127 |
| Obligations under Finance Lease | 14,448 | 14,448 | 14,440 | 14,440 |
| | 63,148 | 63,148 | 64,567 | 64,567 |
| 17 BORROWINGS | | | | |
| Bank loans and mortgages are repayable as follows | | | | |
| In one year or less | 2,427 | 2,427 | 2,405 | 2,405 |
| Between one and two years | 5,202 | 5,202 | 2,447 | 2,447 |
| Between two and five years | 7,528 | 7,528 | 9,169 | 9,169 |
| In five years or more | 35,970 | 35,970 | 38,511 | 38,511 |
| | 51,127 | 51,127 | 52,532 | 52,532 |
| Finance Leases | | | | |
| The net finance lease obligations to which the School is committed are | | | | |
| In one year or less | – | – | – | – |
| Between one and five years | 226 | 226 | 218 | 218 |
| Over five years | 14,222 | 14,222 | 14,222 | 14,222 |
| | 14,448 | 14,448 | 14,440 | 14,440 |

Bank loans and mortgages contain secured loans at variable rates of interest linked to LIBOR. The margins varying from LIBOR plus 45 basis points to LIBOR plus 1%.

A loan of £3,785,000 (2002: £3,995,000) is subject to a 10 year SWAP agreement to 2004 at an interest rate of 8.84% and is secured on a Student Residence.

A loan of £19,200,000 (2002: £20,160,000) was subject to a 5 year interest rate SWAP to 2003 at a rate of 7.13% and is secured on three School properties.

A Finance Lease of £14,448,000 (2002: £14,440,000) is subject to a notional interest rate (7.058%) assumed in the lease cashflows and is secured on a Student Residence.

NOTES TO THE ACCOUNTS

| | NOTES | FUNDING COUNCIL £'000 | OTHER GRANTS & DONATIONS £'000 | TOTAL £'000 |
|---|-------|--------------------------|-----------------------------------|----------------|
| 18 DEFERRED CAPITAL GRANTS | | | | |
| Group and School | | | | |
| As at 1 August 2002 | | 17,266 | 19,494 | 36,760 |
| Cash Received | | 6,117 | 2,821 | 8,938 |
| Released to Income and Expenditure Account – School | 1&4 | (289) | (234) | (523) |
| Released to Income and Expenditure Account – Halls | | (18) | (28) | (46) |
| As at 31 July 2003 | | 23,076 | 22,053 | 45,129 |

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

| | NOTES | SPECIFIC £'000 | GENERAL £'000 | TOTAL £'000 |
|--|-------|-------------------|------------------|----------------|
| 19 ENDOWMENTS | | | | |
| Group and School | | | | |
| As at 1 August 2002 | | 28,916 | 5,847 | 34,763 |
| Additions | 5 | 3,415 | 22 | 3,437 |
| Appreciation/(Depreciation) of Endowment Asset Investments | 5 | 309 | 47 | 356 |
| Investment Income | 5 | 1,064 | 137 | 1,201 |
| Depreciation of Freehold Property | | – | (49) | (49) |
| Transferred to Income and Expenditure Account | 5 | (3,795) | (70) | (3,865) |
| As at 31 July 2003 | | 29,909 | 5,934 | 35,843 |

| | Group 2003 £'000 | School 2003 £'000 | Group 2002 £'000 | School 2002 £'000 |
|-------------------------------|------------------------|-------------------------|------------------------|-------------------------|
| 20 REVALUATION RESERVE | | | | |
| Group and School | | | | |
| As at 1 August | – | – | 1,351 | 1,351 |
| Revaluation in Year | – | – | (1,351) | (1,351) |
| As at 31 July | – | – | – | – |

The Revaluation Reserve relates to Fixed Asset Investments.

| | Group 2003 £'000 | School 2003 £'000 | Group 2002 £'000 | School 2002 £'000 |
|--|------------------------|-------------------------|------------------------|-------------------------|
| 21 MOVEMENTS ON GENERAL RESERVE | | | | |
| As at 1 August | 38,584 | 38,192 | 37,216 | 36,862 |
| Surplus for the Year | 11,158 | 10,994 | 1,368 | 1,330 |
| As at 31 July | 49,742 | 49,186 | 38,584 | 38,192 |

NOTES TO THE ACCOUNTS

| | 2003 | | 2002 | |
|--|---------|---------------|---------|---------------|
| | £'000 | £'000 | £'000 | £'000 |
| 22 RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES | | | | |
| Surplus of Income over Expenditure for the Year on Total Activity Before Tax | | 11,245 | | 829 |
| Adjustment for Depreciation and Deferred Capital Grants | | | | |
| Depreciation | 2,901 | | 2,810 | |
| Loss on Disposal of Tangible Fixed Assets | 21 | | 50 | |
| Deferred Capital Grants Released | (569) | | (484) | |
| | | 2,353 | | 2,376 |
| Adjustment for Investment and Financing Cash Flows | | | | |
| Investment Income Receivable | (1,016) | | (809) | |
| (Profit)/Loss on Disposal/Revaluation of Investments | (134) | | 1,386 | |
| Interest Payable | 3,810 | | 4,173 | |
| | | 2,660 | | 4,750 |
| Adjustment for Restricted Fund Cash Flows | | | | |
| Transfer to Income and Expenditure Account | (3,795) | | (3,810) | |
| Additions to Funds | 3,262 | | 2,743 | |
| | | (533) | | (1,067) |
| Adjustment for Joint Venture (Profit)/Loss | | 3 | | – |
| Adjustments to Working Capital | | | | |
| Decrease in Stocks | (11) | | 8 | |
| (Increase)/Decrease in Debtors | (1,866) | | 724 | |
| Increase in Creditors | (941) | | 2,609 | |
| Less relating to Bank Loans/Mortgages | (22) | | (20) | |
| | | (2,840) | | 3,321 |
| Net cash Inflow from Operating Activities | | 12,888 | | 10,209 |

| | 2003 £'000 | 2002 £'000 |
|---|---------------|---------------|
| 23 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | |
| Income from Endowments | 1,201 | 1,221 |
| Other Investment Income | 879 | 632 |
| Interest Payable | (3,810) | (4,173) |
| Accrued Interest added to Long Term Loans | 8 | 47 |
| | (1,722) | (2,273) |
| 24 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | |
| Payments to Acquire Tangible Fixed Assets | (13,179) | (5,280) |
| Payments to Acquire Investments | (5,433) | (56,783) |
| Payments to Acquire Investment Property | – | (1,537) |
| Receipts from Disposal of Fixed Assets | 6 | – |
| Receipts from Sales of Investments | 4,807 | 56,178 |
| Receipts from Sales of Investment Property | – | 1,615 |
| Deferred Capital Grants/Donations Received | 8,938 | 3,280 |
| Permanent Endowments Received | 153 | 163 |
| | (4,708) | (2,364) |

NOTES TO THE ACCOUNTS

| | 2003 £'000 | 2002 £'000 |
|---|---------------|---------------|
| 25 MANAGEMENT OF LIQUID RESOURCES | | |
| Cash (Added)/Withdrawn from Fixed Term Deposits | (2,000) | (6,000) |
| 26 FINANCING | | |
| Bank Loan Repayments | (2,405) | (2,385) |
| New Loans and Mortgages | 1,000 | 2,150 |
| | (1,405) | (235) |

| | AT 1 AUG 2002 £'000 | CASH FLOWS £'000 | OTHER CHANGES £'000 | AT 31 JULY 2003 £'000 |
|---|---------------------------|------------------------|---------------------------|-----------------------------|
| 27 ANALYSIS OF CHANGES IN NET DEBT | | | | |
| Cash at Bank and in Hand | 7,179 | 2,906 | – | 10,085 |
| Endowment Cash | 6,715 | 147 | – | 6,862 |
| Less: Fixed Term Deposits within Endowment Cash | (6,000) | – | – | (6,000) |
| | 7,894 | 3,053 | – | 10,947 |
| Fixed Term Deposits | 6,000 | 2,000 | – | 8,000 |
| Debt due within one year | (2,405) | 2,405 | (2,427) | (2,427) |
| Debt due after one year | (64,567) | (1,000) | 2,419 | (63,148) |
| | (53,078) | 6,458 | (8) | (46,628) |

28 PENSION COMMITMENTS

(i) USS

The School participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). 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.

The latest actuarial valuation of the Scheme was at 31 March 2002. 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 5.0% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.0% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% 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 £19,938 million and the value of the past service liabilities was £19,776 million leaving a surplus of assets of £162 million. The assets therefore were sufficient to cover 101% 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 14.25% of salaries but it was agreed that the institution contribution rate will be maintained at 14% of salaries. To fund this reduction of 0.25% for the period of 12 years from the date of the valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £82.5 million of the surplus. This left a past service surplus of £79.5 million (including the Supplementary Section) to be carried forward.

Surpluses or deficits which arise at future valuations may impact on the School's future contribution commitment. The next formal actuarial valuation is due as at 31 March 2005 when the above rates will be reviewed.

The total pension cost for the School was £4,408,000 (2002 £3,955,000). The contribution rate payable by the School was 14% of pensionable salaries.

NOTES TO THE ACCOUNTS

28 PENSION COMMITMENTS (continued)

(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 now adopted FRS17 for accounting for pension costs. It is not possible to identify the School's share of the underlying assets and liabilities of SAUL. Therefore contributions are accounted for as if SAUL were a defined contribution scheme and pension costs are based on the amounts actually paid (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 2002 using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The following assumptions were used to assess the past service funding position and future service liabilities:

| Valuation method | Projected unit | |
|--|----------------|----------------|
| | Past Service | Future Service |
| Investment return on liabilities | | |
| – before retirement | 6.0% p.a. | 7.0% p.a. |
| – after retirement | 5.0% p.a. | 5.0% p.a. |
| Salary growth (excluding an allowance for promotional increases) | 4.2% p.a. | 4.2% p.a. |
| Pension increases | 2.7% p.a. | 2.7% p.a. |

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 £941 million representing 121% of the liability for benefits after allowing for expected future increases in salaries.

The contribution rate required for future service benefits alone at the date of the valuation was 17.4% of salaries per annum.

Employers who have recently joined SAUL ('New Employers') and certain employee groups (as agreed by the Trustee of SAUL), pay 17.4% of salaries per annum until the second actuarial valuation after entry (or some other period as agreed with the Trustee). The past service surplus allows all other Employers to pay contributions at the rate of 10.5% of pensionable salaries per annum, subject to review at future valuations. The surplus also supports the continuation of the Employee contribution rate of 5% of salaries per annum, again subject to review.

The next formal actuarial valuation is due at 31 March 2005 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, but no provision is made for the commitment in respect of future years.

29 CAPITAL COMMITMENTS

There were no capital commitments.

NOTES TO THE ACCOUNTS

| | Group 2003 £'000 | School 2003 £'000 | Group 2002 £'000 | School 2002 £'000 |
|---|------------------------|-------------------------|------------------------|-------------------------|
| 30 OPERATING LEASES | | | | |
| At 31 July the School had annual commitments under non-cancellable operating leases as follows: | | | | |
| Land and buildings | | | | |
| Expiring within one year | - | - | - | - |
| Expiring between two and five years | - | - | - | - |
| Expiring in over five years | 1,676 | 1,676 | 1,627 | 1,627 |
| | 1,676 | 1,676 | 1,627 | 1,627 |

31 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.

32 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.

| | 2003 £'000 | 2002 £'000 |
|----------------------------------|---------------|---------------|
| 33 ACCESS FUNDS | | |
| Consolidated and School | | |
| Balance Unspent as at 1st August | 44 | 21 |
| Funding Council Grants | 120 | 150 |
| Interest Earned | 2 | 2 |
| Disbursed to Students | (152) | (129) |
| Balance Unspent as at 31st July | 14 | 44 |

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.

In addition to the above the School has spent £3,970,000 during the year on Student Support using general funds to support hardship grants and merit awards.

CORPORATE GOVERNANCE AND INTERNAL CONTROL STATEMENT

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 progress to date and future plans on implementation of best practice for internal control and risk management. The School is a charity and company limited by guarantee, which it has been since 1901, and as such its primary documents of governance are a Memorandum and Articles of Association. In the higher education sector, LSE is one of a small number of institutions which has this basis for 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 to the extent that its principles apply to universities.

The principal statutory bodies of the School are as follows:

The Court of Governors

(which constitutes the members of the company)

As constitutional guardian, the Court has the following formal powers: the appointment of members of Court, its sub-committees and of the Council; amendment of the Memorandum and Articles of Association; appointment of the 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 Act. If governors are dissatisfied with a decision made by the Council, they (i.e. 10 members according to the Companies Act) 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 the Council.

The Council

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

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

Council is supported in carrying out its role by a Finance and General Purposes Committee, a Remuneration Committee, an Estates Strategy Committee, an Academic Planning and Resources Committee, a Personnel Strategy Committee, a Library and Information Services 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

1 As the governing body of the School, the Council has responsibility for maintaining a sound system of internal control that supports the achievement of 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.

2 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.

3 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. This process has been in place for the year ended 31 July 2003 and up to the date of approval of the financial statements and is in accordance with HEFCE guidance.

4 The actions taken over the past two years to develop a robust approach to risk management as an element of the system of internal control include the introduction of formal policy and strategy statements on risk management; the allocation of committee and management responsibilities for risk management; and the introduction of practices intended to embed a culture of risk awareness in the School's continuing activities.

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

CORPORATE GOVERNANCE AND INTERNAL CONTROL STATEMENT

5.1 Council meets three times each term to review key elements of the strategic direction of the School. These reviews include consideration of risk and control factors in relation to the School's continuing operations and proposed new developments.

5.2 The detailed oversight of risk management arrangements is carried out on Council's behalf by the Finance and General Purposes Committee, to which a Risk Sub-Committee reports. The Finance and General Purposes Committee considers both financial and non-financial risk. A detailed organisation wide risk register is maintained and subject to regular review and updating by the Risk Sub-Committee.

5.3 The Risk Sub-Committee receives and evaluates regular reports from managers charged with managing key risks and reports its conclusions on to the Finance and General Purposes Committee. The identification of new and emerging risks arises primarily from regular meetings held by senior School officers and heads of administrative divisions, which are then evaluated through the Risk Sub-Committee. Where risk assessment by administrative officers has identified that urgent Council consideration is required, risks are addressed directly to Council. In 2002/03 both the health and financial risks arising from the SARS epidemic were addressed in this way.

5.4 Through its risk management process the Council has recognised the benefit of HEFCE recommended practice guidelines for related companies (HEFCE 2000/58). New companies will be conducted in accordance with these guidelines ab initio and actions are committed to ensure that the processes for companies that predate these guidelines are updated in the course of 2003/4.

5.5 The Audit Committee receives regular reports on the work of the Risk Sub-Committee. The head of internal audit also reports regularly to the Audit Committee on the adequacy and effectiveness of the constituent elements of the School's system of internal control, together with recommendations for improvements. Internal audit's work includes continuing review of the operational risks associated with the key systems and units examined.

5.6 A robust method of prioritisation based on risk ranking has been established for institution-wide risks and will be extended to academic departments over the coming year.

5.7 Risk awareness is being introduced as an element in staff induction programmes and an ongoing training programme is being developed.

6 Council's view of the effectiveness of the system of internal control is informed by the internal audit unit, 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 head of internal audit submits regular reports which include his independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement.

7 Council's view is also informed by the work of operational 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

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

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

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

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

The Council has taken reasonable steps to:

- ensure that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources

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

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

The maintenance and integrity of 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE COURT OF GOVERNORS OF THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

We have audited the financial statements of the London School of Economics and Political Science for the year ended 31 July 2003, 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.

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

Respective Responsibilities of Members of the Court and Auditors

As described in the statement of responsibilities of the Council of the London School of Economics and Political Science, the Council is responsible for the preparation of the financial statements in accordance with 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.

We report to you our opinion as to whether the financial statements give a true and fair view. We also report to you whether, in our opinion monies expended out of funds from whatever source administered by the School for specific purposes were properly applied for those purposes and where relevant managed in accordance with appropriate legislation and whether monies expended out of funds provided by the Higher Education Funding Council were applied in accordance with the financial memorandum and any other terms and conditions attached to them.

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

We read the Report of the Chairman of the Governors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom 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 the financial statements give a true and fair view of the state of affairs of the London School of Economics and Political Science and the group at 31 July 2003 and of the group's surplus for the year then ended.

In our opinion, in all material respects, funds from whatever source administered by the School for specific purposes were properly applied for the intended purposes and, where relevant, managed in accordance with appropriate legislation for the year ended 31 July 2003.

In our opinion, in all material respects, funds provided by the Higher Education Funding Council for England were applied in accordance with the financial memorandum dated 1 August 2000 and any other terms and conditions attached to them for the year ended 31 July 2003.

RSM Robson Rhodes LLP

Chartered Accountants
and Registered Auditors
Hemel Hempstead, England

OFFICERS RESPONSIBLE FOR THE SCHOOL'S FINANCES

Lord Grabiner of Aldwych QC
Chairman of the
Court of Governors



Bryan Sanderson
Vice-Chairman
Court of Governors



Bernard Asher
Vice-Chairman
Court of Governors



Professor Anthony Giddens
Director to 30 September 2003



Howard Davies
Director from 1st October 2003



Sir Michael Lickiss
Chairman
Finance and General Purposes Committee



OFFICERS RESPONSIBLE **FOR THE SCHOOL'S FINANCES**

Professor Judith Rees
Deputy Director



Dr Ray Richardson
Deputy Director



Professor Henrietta Moore
Deputy Director



Adrian Hall
Secretary and Director of Administration



Andrew Farrell
Director of Finance and Facilities



Michael Ferguson
Deputy Finance Director
and Head of Finance Division



DIRECTORS OF THE SCHOOL

Chairman: **Lord Gribner of Aldwych QC**

Vice-Chairman: **Bernard Asher**

Vice-Chairman: **Bryan Sanderson**

Professor N Barr

Sir Anthony Battishill

(appointed 1 August 2002)

Ms P Baxendale QC

(appointed 1 August 2002)

Mr L Dighton

Dr C V Downton

Professor A Giddens

Mr Cyril Glasser CMG

Mr Richard Goeltz

(appointed 1 August 2002)

Professor S R Hill

(resigned 15 April 2003)

Ms K Jenkins

(resigned 31 July 2003)

Professor J Le Grand

Ms T Koussa

(appointed 1 August 2002, resigned 13 July 2003)

Sir Michael Lickiss

Professor Peter Miller

(appointed 29 October 2002)

Professor H L Moore

Ms C A Myers

(resigned 4 March 2003)

Ms Anne Page

Dr W Plowden

(resigned 31 July 2003)

Professor J Rees

Dr Ray Richardson

(appointed 28 February 2003)

Professor J Rosenhead

Professor R Silverstone

Mr Elliot Simmons

(appointed 14 July 2003)

Professor C M Whitehead

(resigned 31 July 2003)

Mr R M Worcester

Company Secretary:

Dr C Challis

(resigned 30 April 2003)

Mr A Hall

(appointed 1 May 2003)



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