



THE LONDON SCHOOL  
OF ECONOMICS AND  
POLITICAL SCIENCE ■

## **Annual Accounts**

for the year ended 31 July 2006

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Pedestrianisation of Houghton Street

During the past year, the School has continued to enhance the effectiveness of its governance arrangements. Our procedures and practices meet, and in many respects surpass, nationally commended standards of good practice.

I mentioned in my report last year that we were assessing the School's governance against the recommendations of the Committee of University Chairmen's (CUC) *Governance Code of Practice and General Principles* and reviewing the structure of Council committees and the relationship between the Council and Court of Governors. A number of changes have been agreed to the School's governance arrangements, the most significant of which are:

- Council has adopted CUC's Model 'Statement of Primary Responsibilities' as the basis for its activities as the School's Governing Body, and a business schedule that ensures all its responsibilities, including those required by HEFCE, are given timely consideration;
- the structure of the committees reporting to Council has been overhauled to ensure fitness for purpose; the delegation of powers to committees has been set out in a more structured way in committees' terms of reference; and greater consistency has been introduced into the membership structure of committees;
- the first of what will be regular triennial self-evaluation surveys of Council's effectiveness has been carried out: we are indebted to Professor Sir Robert Worcester of MORI for his help in this regard;
- the relationship of the Court of Governors with the Council has been clarified and the Court's role set down in its own Statement of Primary Responsibilities, including that of 'custodian of the long-term fundamentals, interests and well being of the School in the spirit of the Founders' with a range of measures being implemented to give effect to that role;
- agreement to establish regional advisory boards to provide a structure for obtaining advice from leaders of the region on aspects of its region's relationship to the School, with annual discussion by the Court of issues raised by the boards: the first such board will be for North America;

- the Memorandum and Articles of Association, the School's Instrument of Governance, has been revised so that responsibility for formal approval of the annual audited accounts of the company and the appointment of the Director of the School lie with the Council, bringing us into line with normal company practice.

The role and responsibilities of the Heads of Academic Departments have been clarified following the recommendations of a Review Group chaired by the Director.

The School was granted degree awarding powers by the Privy Council during the year. We are, with a number of other institutions in a similar position, exploring with the University of London the implications of exercising those powers as a college of the University.

## Strategic Direction

Council exercises the full range of responsibilities expected of company directors in overseeing, guiding and promoting the School's strategic development, working closely with the Finance and General Purposes Committee.

I referred last year to the School's new five-year rolling Strategic Plan with its five institutional strategic priorities<sup>1</sup> and related Measures of Achievement (planned outcomes) and indicators of performance. During the past year Council has, in accordance with agreed internal and external guidelines, monitored progress towards achieving the Plan's five priorities by receiving and questioning reports on the delivery of the actions that underpin the Measures of Achievement and on the attainment and development of targets. The Plan has now been reviewed and updated to carry it forward to 2011, with the five priorities established in 2005 remaining unchanged.

At its Awayday on 25 September 2006, Council reviewed current strategic issues and progress made in the past 12 months against agreed objectives, and considered a range of issues relating to the Strategic Plan, including the implications for academic growth and change of the Five Year Development Plans submitted by academic departments, property and financing, international strategy and future fundraising strategy. While the Awayday is not a formal



decision making meeting, it provided the opportunity for Council to consider its position on a range of important issues on which decision will need to be made in the forthcoming year and beyond.

### Institutional Finance

Council is responsible for ensuring the solvency of the Company and safeguarding its assets and income. Detailed monitoring of the financial position is delegated to the Finance and General Purposes Committee which reports to Council on a termly basis. During the year the Committee has undertaken a review of the effectiveness of the School's financial management arrangements to ensure compliance with recommended practice and to identify opportunities for improvement.

### Legal Compliance

The raft of legal obligations placed on the School continues to grow. In liaison with the School's Solicitors, the Secretariat continually updates a comprehensive digest of new and forthcoming statutory and regulatory developments which is used as a tool to ensure 'light touch' compliance that intrudes as little as possible upon the core activities of teaching, learning and research. Council receives the digest at regular intervals for information and comment.

During the past year the School has appointed a full-time Diversity Adviser to take forward the fresh requirements placed on us by new diversity and equality legislation and to embed greater awareness of its positive benefits in the School community.

The implications for the School of the new Charities and Company Law Reform Bills have been assessed and the implications of implementing the changes they will bring identified.

The School continues to receive a considerable number of requests under the Freedom of Information Act and has robust and efficient processes for dealing with them.

### Risk and Audit

The Risk Committee continues to oversee the management of key strategic risks to the School's priorities and to make twice-yearly reports to Council on steps being taken to control them. During the past year, the School's Risk Register has been thoroughly revised and continues to focus on the practical handling of a relatively small number of 'real' major risks. Particular attention is being paid to managing the risks arising from the School's growing involvement in different types of collaboration and joint ventures and from a range of disparate activities and organisations associated with the School. These formed the subject of the first Joint Meeting of the Risk and Audit Committees in March.

The steps taken last year to strengthen the Audit Committee have been supplemented by revisions to the structure and responsibilities of the Internal Audit Service in anticipation of the retirement of the Internal Auditor. The objectives have been to create capacity to develop a more

proactive and strategic approach to audit, to establish tighter controls over the associated activities mentioned above and to link the audit and risk management functions more closely.

We were pleased to receive confirmation from HEFCE that the School is not considered 'at higher risk' at present and that there are no issues of significance the Funding Council currently needs to address with us.

### Succession Planning

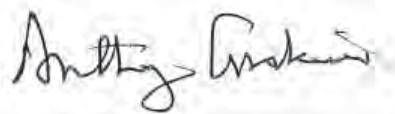
During the year, Peter Sutherland KCMG was elected as a member of the Court of Governors from 16 March 2006 and as my successor as Chairman of Court and Council from 1 January 2008. Peter's background in public policy and his business and international interests match the School's profile remarkably well and we are delighted that he has accepted the Chairmanship role. We have also been fortunate in attracting four further outstanding new Governors: Professor Charles Bean, Shami Chakrabarti, Alan Elias and Timothy Frost.

The Nominations Committee has continued its work in succession planning with main committee memberships, chairmanships and office holders, seeking to identify a broad spread of potential candidates to fill future vacancies. Six further Emeritus Governors were appointed under the scheme for recognising outstanding service to the School over many years: Ian Hay Davison, Baroness Howe, Lord Moser, William Plowden, John Selier and Lord Sheppard of Didgemere.

The establishment of the regional advisory boards referred to above will open further opportunities to achieve greater international representation in the membership of the Court through common membership of both bodies.

### Looking Ahead

The past year has been one of significant progress and change in the governance arrangements of the School. I am confident that all the steps that have been taken will not only materially enhance the effectiveness of our governance and ensure that it meets the highest standards of good practice but will also provide a structure that actively contributes to the promotion of initiatives and the realisation of our strategic objectives.



**Lord Grabiner of Aldwych QC**  
Chairman of Court and Council

<sup>1</sup> The priorities are: (1) maintain excellence in teaching with high quality student teaching (2) produce research of the highest quality (3) engage with the wider community (4) formulate and implement a planned programme of expansion to enable the School to maintain its competitive position and facilitate intellectual innovation (5) focus resources to deliver priorities.



Once again, as the financial section below explains in more detail, the School exceeded its financial target. It is important for us to run a surplus, as we have a sizeable investment backlog in relation to our existing estate, which is not of a quality adequate to house a top class global university, and we need more high quality space to sustain our expansion.

The prime reason for the successful financial result is that places in the School are in very high demand, both domestically and internationally. At undergraduate level we receive among the highest numbers of applicants per place of all universities in the United Kingdom, and while domestic demand was a little down in 2006, following the increase last year as students sought to be admitted under the old fee regime, international applications jumped by about 15 per cent.

At postgraduate level, we have some concerns about the number of British students prepared to study for a Masters: that, we believe, is a national problem. But overseas students continue to apply in large numbers, and from a very wide range of countries. We have long recruited students from, for example, Hong Kong and Singapore, but we are now also seeing rising applications from countries like Vietnam, where we are newcomers. And the numbers coming to us from mainland China continue to grow.

### Expansion

I reported last year that, in response to this high demand, we plan to expand the School to around 9,000 full time students (from just over 8,000 today) in the next 5 years. To ensure that expansion is properly considered, we have put in place a new planning process whereby individual departments assess the changing demand for their degrees and put forward proposals for the future. We have also consulted university leaders elsewhere, to ensure we remain abreast of new developments in social science teaching and research around the world. As I write, we are assessing the proposals put forward and constructing a coherent and overall strategy for the School over the next 5 years. The Academic Board and the Council will be considering concrete plans (including plans for more concrete) during the course of this academic year.

Some changes are underway already. Following lengthy consideration we launched a new Department of Management in 2006, bringing together 4 previously separate departments (Industrial Relations, Operational Research, Interdisciplinary Institute of Management and Information Systems). It may well be appropriate to add other departments in due course. Our priority is

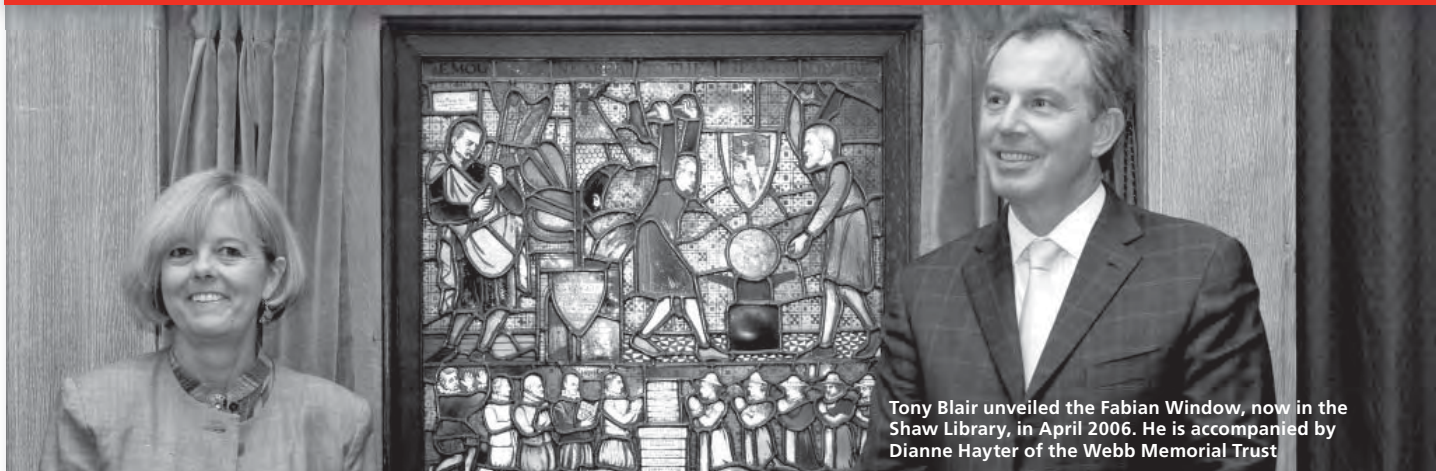
to broaden and strengthen our management education offerings, which have been too narrowly focused hitherto. We have also launched a range of double degree programmes with top class universities elsewhere: Colombia in New York, Sciences Po in Paris and Peking University. Working with these international partners we can offer programmes which it would not be possible for us to teach effectively using only our own faculty in London. Our double degree with Peking University, for example, will allow students to take the LSE's international relations courses in London and to study the rise of China and Chinese foreign policy in Beijing. As I explained last year, we see this as a sustainable international strategy, and one which for us is preferable to opening campuses elsewhere which could only be a pale reflection of our London home.

### Fees

The new variable fees regime for domestic and European undergraduates was not introduced until October 2006, after the end of the financial year under review. But during the year we put in place a new bursary scheme, agreed with the Office of Fair Access, to provide financial support for students from poorer families. Entrants from the poorest families will be better off under the new arrangements than they were under the old regime.

There was no obvious sign of a fall of in demand from students from less wealthy families. The proportion of offers made to students from state schools rose in 2006 after 3 years of small reductions. But it is too early to assess the full impact of the regime. The government have promised a review in 2009, to which we and other universities will wish to contribute.

We can certainly expect that students paying somewhat higher fees than before will focus attention on the experience they have at university. Partly for that reason, we have embarked on a set of projects to improve the student experience at LSE. We are looking to enhance support to non-UK students, to develop a student well being strategy, to improve our coordination of feedback from students, and to provide better pastoral support. Many of these projects are still at an early stage, and I will report further on them in the future.



Tony Blair unveiled the Fabian Window, now in the Shaw Library, in April 2006. He is accompanied by Dianne Hayter of the Webb Memorial Trust

### Research

On the research front, the life of many academics in the School has been dominated by the Research Assessment Exercise. Although the deadline by which academics must submit their publications for assessment is not until October 2007, with the long lead time for many refereed journals this year has been an important one. We have been working hard through the School's Research Committee to ensure that we will be in a position to put forward the best possible submission to the various panels set up to assess the quality of research done. But of course every other university is doing the same, so this is a time of competitive stress for academics.

The position has been somewhat confused by statements by the government to the effect that the 2008 RAE will be the last conducted in this way, based on extensive peer assessments. The timing of the government's criticisms of the process underway was somewhat curious, coming as it did 2 years before the conclusion of the current round. The policy proposals emerged initially from the Treasury, rather than the Department for Education and Skills, adding to the perception that left and right hands in Whitehall were not as closely coordinated as they might be.

We can understand the case for change. The existing RAE is very time consuming both for those who submit to it, and for the panels themselves, on some of which we are represented. But we are concerned that a rapid move to an assessment process based on 'metrics', in other words simple measures of citations, could have perverse consequences. Too little attention has been paid so far to the problems of assessment in humanities and the social sciences, where reliable metrics are harder to find. Our Chairman has helpfully made these points in the House of Lords. We shall continue to watch this area of policy closely and to contribute to the national debate.

### Management

The internal management structure of the School is not of abiding interest to those outside it, or indeed to some of those within. But this year we did make a significant change which is worthy of note. Following a review of the role of Convenors of academic departments, we decided that the title 'Convenor' should be abolished. It was something of a hangover from a previous age, when the management demands on the individuals concerned were less. In future, there will be Heads of Department, rather than Convenors, a change in designation which reflects the more significant role they now play in managing their parts of the School. Though academic decision making power continues to rest with the Academic Board and its Committees, the Department Heads Forum has assumed an increasingly important role within the School as an environment in which month to month management questions can be discussed.

### Fundraising

The School's fundraising campaign had a particularly good year, with around £13 million raised from a wide variety of sources. That is the highest figure we have achieved so far in a single year. Among those important donations were \$4 million to endow a new chair in contemporary Turkish studies, provided by a number of sources in Turkey, including the government and the Central Bank. That will sit alongside the Greek chair in the European Institute. We were also delighted to receive a pledge of £2 million to support students from the Middle East and South East Asia, from an alumnus, Arif Naqvi, and his company the Abraaj Group in Dubai.

It was also very pleasing that the Annual Fund, which pulls together unrestricted donations from a large number of alumni giving individually at a modest level, exceeded £500,000 for the first time. We think it is vital to develop a habit of giving among our alumni at an early stage of their careers. Experience in US universities suggests that is the key to long term fundraising success. At present, we remain a long way from the achievements of large American private or indeed public universities, but I am confident that we are moving in the right direction.

### The Estate

We made considerable progress in improving the Estate during the year. New classrooms came into use in the towers we purchased in Clements Inn. The new academic building continues to move forward on plan, and now within a fixed price contract. It will be ready for the 2008/09 academic year. Just as importantly, we have increased our residence places significantly, and upgraded the stock. Two new residences, Lillian Knowles House in Spitalfields and Northumberland House just off Trafalgar Square, were opened in time for the 2006/07 session, and Passfield Hall, beloved of many of our students over the decades, was refurbished, enlarged and re-opened at the same time. We can now offer rooms in residences to 45 per cent of our students.

In the Old Building itself, one small improvement this year served to reconnect the School with its early history. In 1910 George Bernard Shaw commissioned a stained glass window from an artist friend to commemorate, and even gently ridicule his fellow Fabian society members. The window shows Fabians, including the Webbs and HG Wells, in Elizabethan costume, hammering the globe into shape with the motto 'pray devoutly, hammer stoutly'. For many years the window was installed in the Webb's house in Dorking, but when that house was sold it disappeared from view, and resurfaced only recently in a London sale room. The Webb Society bought it, but then offered it to the School for display and safe keeping.

We are delighted to have been able to install it in the Shaw library, next to the splendid Nicholson portrait of the Webbs themselves. And just as Attlee had done before him in Dorking, Tony Blair visited the School to unveil it. We are most grateful to the Webb Society for the loan.



## University of London

In other respects, the School is moving away from its roots. We have decided to seek to exercise the degree awarding powers which were given to us last year, following an in-depth review of our quality assurance methods by the Government's Quality Assurance Agency. Many of our students are now surprised to find themselves given a University of London certificate on their graduation day. We have therefore decided that it would be better for LSE to issue degrees in its own name in future. We await approval from the University of London as a whole to that proposal.

Imperial College has chosen to go further, and to secede from the federal university altogether. Our view at present is that would not be the right course for LSE. Some of our faculty and students make more use of the university central facilities than did those of Imperial College. But we are looking for further improvements for the governance of the University of London, and in its cost control, and we keep the position under review.

## Financial overview

For the financial year ending 31 July 2006 the School achieved a surplus before exceptional items of £13.7m, equivalent to 9.2 per cent of gross income and compares to a surplus of £10.1m for 2004/05 (7.5 per cent).

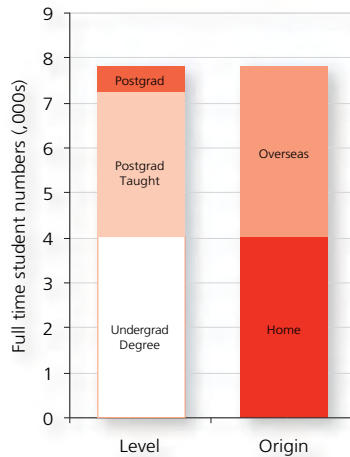
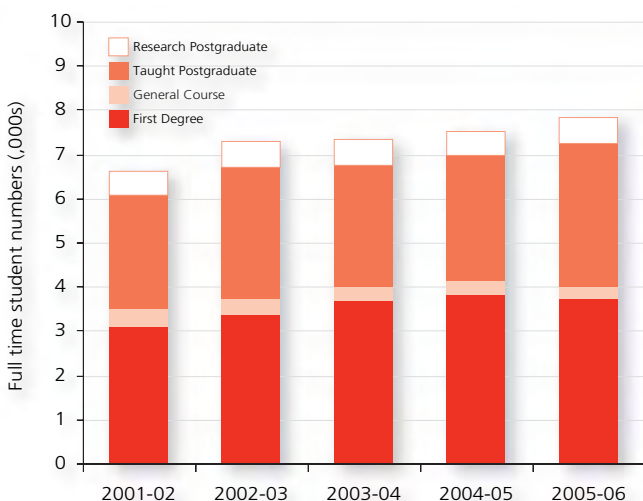
During the year the School liquidated its fixed asset investments and received a partial settlement relating to participation in the external programme of the University of London. These two items generated exceptional income of £2.2m bringing the total reported surplus for the year to £15.9m.

In addition to these exceptional items, buoyant student recruitment, contingencies not required and lags in staff recruitment all contributed to the surplus. Surpluses are expected to decline within target range for the next few years.

The Finance and General Purposes Committee has adopted a target surplus range of 3 per cent to 4 per cent of income, recognising that sustainable surplus is required to fund loan repayments, to support capital and infrastructure investment and provide the School with the flexibility to invest in new academic initiatives.

## Consolidated Income and Expenditure

The gross income of the School and its subsidiaries increased 10.5 per cent to £149m (2004/05 £135m). Major contributions to this growth were a 14 per cent increase in tuition fee income and a 9 per cent increase in HEFCE grants. The School's tuition fee income of £72m (2004/05 £63m) remains the most important source of income, representing 48 per cent of the total.



Non-UK/EU (overseas) students account for half the School's student population and for over two-thirds of tuition fee income. This highlights the international flavour of the School's student body and it is a testament to the School's reputation that despite the tragic events of 7 July 2005 student recruitment, particularly from overseas, remained buoyant.

Turning to expenditure, non-pay spending grew by almost

11 per cent, though in many instances this is less than the growth in the related income. For example, the significant increase in academic department spending comes from growth in the London summer school, some new short courses and the cost of teaching to support the additional student recruitment in the year.

It is particularly pleasing to note that scholarship and bursary spending has grown by 15 per cent to £9.1m: this now represents nearly 14 per cent of tuition fee income. This level is amongst the highest in the sector and will rise further from 2006/07 with the introduction of the new bursary scheme that supports variable undergraduate home/EU tuition fees.

The 7 per cent increase in average pay, well above cost of living award for 2005/06, reflects the School's continuing commitment to investment in staff. Although presenting a constant challenge in the competitive global market from which the School seeks to draw its faculty, the recruitment and retention of the best academics is critical to the School's continuing success. I am particularly pleased that the School has attracted staff of international reputation to the newly formed Department of Management.

## Liquidity and financing

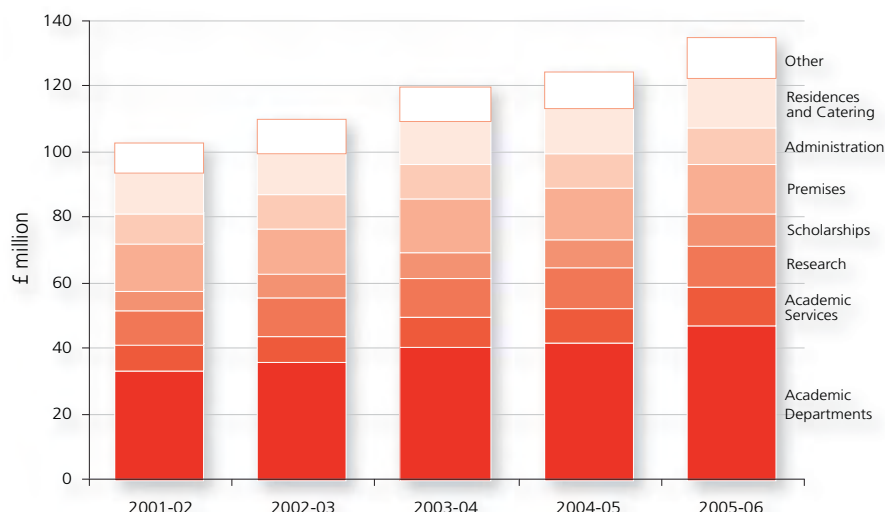
The net cash flow from operating activities rose to £21.8m compared to £13.4m in 2004/05. This significant inflow of cash, combined with the proceeds from the sale of fixed assets investments, has permitted the financing of capital expenditure and repayment of the finance leases on High Holborn residence without drawdown of additional borrowings during the year.

## Capital Expenditure

The School has undertaken 3 major capital projects during the year: the development of the New Academic Building at 24 Kingsway, the refurbishment of Passfield hall of residence and the refurbishment of Towers 1 and 2 in Clement's Inn.

Following a successful architectural competition Grimshaws were selected to lead the redevelopment of 24 Kingsway, the former Public Trustees Office which was acquired last year for £18m. The development, costing £63m in total, is scheduled for completion in summer 2008 and will provide a major new academic building exceeding 12,000 sq metres in size. It will offer high quality accommodation for staff and students that will be fully accessible to disabled users and is built to a high standard of environmental sustainability. To date the School has funded the development from reserves, fundraising and HEFCE capital grants.

## Expenditure 2001/02 – 2005/06



## Funding Council Grants

Although the School has a relatively low proportion of HEFCE grant funding, the £26.5m received together with £0.4m from the Joint Information and Infrastructure Systems Committee (JISC) is an essential contribution to the finances of the School.

## Research Income

There has been a fall in the number and value of awards from UK Government, UK Industry and Commerce and UK Charities, as several large programmes and grants came to an end in 2005. However, as in previous years, there has been an increase in income from UK Research Councils and European Government funding (14 per cent and 25 per cent respectively), demonstrating that the School remains extremely competitive in securing grants awarded on a peer reviewed basis.

## Enterprise LSE limited and subsidiary

Enterprise LSE Ltd, and its subsidiary Enterprise LSE Cities Ltd, is the wholly owned subsidiary of the School that exists to exploit the potential for consultancy and related activities that the School's world-class faculty offer. 2005/06 has been a particularly successful year that has seen strong growth in both consultancy work and executive education. Turnover has increased by 64 per cent to £4.5m generating a net profit of £1.3m that is paid through Gift Aid to the School to support teaching and research activities.

The growth in consultancy business is particularly welcome as it provides an important opportunity for faculty to supplement their personal income, a useful mechanism for attracting and retaining key staff.

## Corporate Social Responsibility

The School's greatest contributions to society arise from its fundamental outputs – research and teaching. But the School's corporate social responsibility activities encompass a very wide range of activities from local to global. It is only possible to give a few examples here.

**Contribution to Public Policy:** Academic staff contribute not only through their work, but through membership of and as advisors to public bodies. Administrative and support staff are active in sector wide bodies.

**Scholarships:** The School has offered over £9m of scholarships, bursaries and hardship funds in 2005/06, of which more than £7m came from its own funds, with the balance from donations and endowments.

**Environment:** The School adopted an environment policy in April 2005. It is a member of the Carbon Trust's Higher Education Carbon Management Programme. An innovative re-use scheme has diverted 6 tons of landfill to re-use, including mattresses to local charities and text books to Rwanda. The New Academic Building is being developed to a BREAM 'excellent' rating – the highest environmental standard. The Environment Policy is incorporated in the School's purchasing tender procedures.

**Local Community:** The School operates a 'volunteer 4 all' scheme for staff to contribute to local community activities. 'Portugal Prints', an independent charity for people with learning difficulties is hosted in the School's Parish Hall. Many students contribute to widening participation activities in local Schools.

**Debate:** The School has an unparalleled programme of events with speakers of international renown. Most of these are open to members of the public.

## The Future

Like all universities, the LSE faces a number of challenges: recruiting top faculty, attracting excellent students and sustaining an environment in which reflection and analysis can prosper, while responding to commercial pressures. I am confident that the LSE is well-placed to prosper in this environment.

**Howard Davies**  
Director



## Business Review and Principal Activities

The principal activities of the School in the year under review were those of Higher Education and Research, together with such additional activities as are relevant to facilitate them. Additional activities include the provision of catering and accommodation services and the publication of academic journals.

A review of the events of the year, together with a summary of expected future developments, is given in the Report of the Director on pages 3-6 of these accounts.

## Subsidiary Companies

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

## Key Performance Indicators

	Notes	2006	2005
% Ratio of surplus to total income	1	10.6%	7.5%
% Ratio of HEFCE grants to total income	2	18.0%	18.2%
Days ratio of general funds to total expenditure	3	247 days	218 days
% Ratio of long-term liabilities to total general funds	4	52%	67%

1. % Ratio of surplus to total income = surplus as a percentage of total income. The School has set itself a target range of three to four per cent for this ratio.
2. % Ratio of HEFCE grants to total income = HEFCE grant income as a percentage of total income. The School aims to maximise its income from non HEFCE sources in order to keep this ratio to a minimum and reduce its dependency upon government funding.
3. Days ratio of general fund to total expenditure =  $365 \text{ days} \times (\text{general reserve plus general endowments}) / \text{total expenditure}$ . The aim is to gradually increase this ratio over a number of years.
4. % Ratio of long-term liabilities to total general funds =  $\text{long-term liabilities} / (\text{general reserve plus general endowments})$ . The aim is to gradually reduce this ratio over a number of years.

## Principal Risks and Uncertainties Facing The School

Over 90% of the School's fee income is generated from masters and overseas students. Consequently fee income can be especially sensitive to the prevailing global, political and economic outlook. To mitigate and manage these risks the School continues to develop its understanding of the key factors that influence demand.

International competition in the recruitment of world class academic staff is such that pay levels are expected to come under continuing pressure.

Although HEFCE grants account for a smaller proportion of our income than most universities it is nevertheless an important source of revenue and therefore the current uncertainty over future funding methods for both teaching and research is a further complication in the planning process.

## Financial Instruments

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

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

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The School has a limit of £5m that can be placed with any one bank.

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

## Environment

The School's Environmental Policy Statement is outlined on page 30.

## Employment

The School aims to be an Equal Opportunities Employer.

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

## Directors

The Directors of the School who served during the year are shown at page 35.

## Disclosure Of Information To Auditors

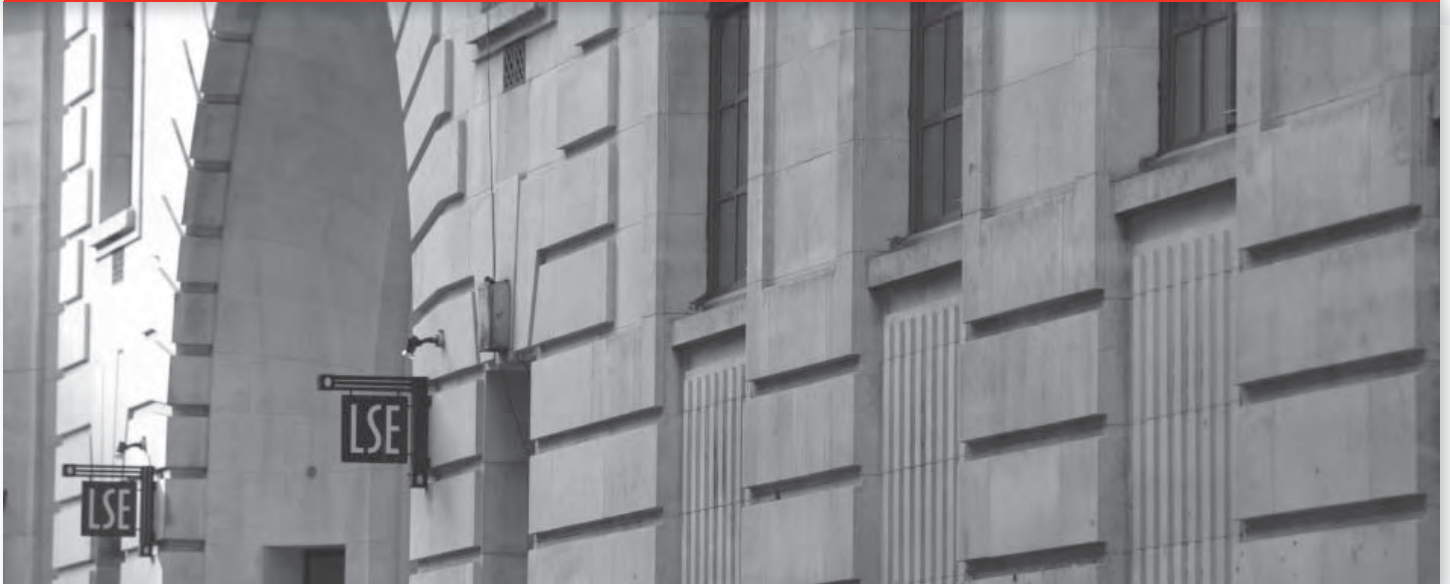
Each of the company's directors at the date of this report confirms the following

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

The Report of the Directors was approved by Council on 21 November 2006.



**Howard Davies**  
Director



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 10 to 27 have been prepared in accordance with the following accounting policies:-

### **(a) Basis of Accounting**

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

### **(b) Format of the Accounts**

The accounts are prepared to conform to the Companies Act 1985 and also with the Statement of Recommended Accounting Practice (SORP): Accounting for Further and Higher Education dated July 2003.

### **(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 13.

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

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

### **(d) Income and Expenditure Account**

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

### **(e) Land and Buildings**

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

The Finance and General Purposes Committee have reviewed the usable lives of the School's buildings in line with FRS 15 and the depreciation policy is based on this assessment.

Freehold buildings are depreciated over the remainder of their useful economic lives which range between 10 and 76 years. Leasehold buildings are amortised over the remaining period of the lease.

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

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 2005/06 accounts.

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

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

Capitalised equipment is stated at cost and depreciated over its useful life which varies between 5 and 10 years.

### **(g) Finance Leases**

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

### **(h) Operating Leases**

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

### **(i) 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. The School's only finance lease was repaid at the beginning of 2005-06.



### **(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.

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

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

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

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

### **(l) Provisions**

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

### **(m) Foreign Currency**

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

### **(n) Pensions**

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

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

### **(o) 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 including term deposits.



## Consolidated Income and Expenditure Account

	NOTES	2006 £'000	2005 £'000
<b>Income</b>			
Funding Council grants	1	26,870	24,677
Tuition fees and education contracts	2	72,316	63,350
Research grants and contracts	3	15,361	15,032
Other income	4	31,217	28,696
Endowment and investment income	5	3,680	3,492
<b>Total income</b>		149,444	135,247
<b>Expenditure</b>			
Staff costs	6	78,160	72,745
Other operating expenses	7	51,308	46,257
Depreciation		3,409	3,247
Interest payable	8	2,830	2,850
<b>Total expenditure</b>		135,707	125,099
Surplus on continuing operations after depreciation of tangible fixed assets at cost and before exceptional items and tax		13,737	10,148
Exceptional items	9	2,172	–
Surplus on continuing operations after depreciation of tangible fixed assets at cost and before tax		15,909	10,148
Taxation		–	–
<b>Surplus on continuing operations after depreciation of tangible fixed assets at cost and tax</b>		15,909	10,148
Transfer to accumulated income within general endowments		(105)	(24)
<b>Surplus for the year retained within general reserve</b>	24	15,804	10,124

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

As permitted by Section 230 of the Companies Act 1985, the income and expenditure account of the Company is not presented as part of these financial statements. Of the total surplus for the year of £15,804,000, a surplus of £15,922,000 was made by the Company.

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

## Statement of Total Recognised Gains and Losses



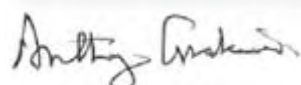
New IT facilities in the St Clements Building

	NOTES	2006 £'000	2005 £'000
Surplus on continuing operations after depreciation of tangible fixed assets at cost and tax		15,909	10,148
New endowments	22	7,420	4,433
Revaluation of endowment asset investments	22	1,746	3,855
Endowment investment income for the year	22	1,803	1,618
Endowment expenditure for the year	22	(4,030)	(3,936)
Endowments transferred to deferred capital grants	22	(150)	(542)
Revaluation of investments within fixed assets	23	–	942
<b>Total recognised gains and losses relating to the year</b>		<b>22,698</b>	<b>16,518</b>
<b>Reconciliation of movement in reserves and endowments</b>			
Opening reserves and endowments		113,669	97,151
Total recognised gains and losses for the year		22,698	16,518
Closing reserves and endowments		136,367	113,669

## Balance Sheets

	NOTES	Group 2006 £'000	School 2006 £'000	Group 2005 £'000	School 2005 £'000
<b>Fixed Assets</b>					
Intangible assets	10	–	–	–	–
Tangible assets	11	194,360	193,767	182,745	182,142
Investments	12	–	–	8,109	8,109
Investments in subsidiary undertakings	13	–	150	–	150
Investments in joint ventures	14	81	–	220	–
		194,441	193,917	191,074	190,401
<b>Endowment Assets</b>	15	51,386	51,386	44,492	44,492
<b>Current Assets</b>					
Stock		68	68	85	85
Debtors	16	13,775	15,651	10,399	11,829
Bank deposits	17	4,000	4,000	–	–
Cash at bank and in hand		9,042	7,220	13,467	12,787
		26,885	26,939	23,951	24,701
<b>Creditors: amounts falling due within one year</b>	18	(28,270)	(28,180)	(37,105)	(37,680)
<b>Net current liabilities</b>		(1,385)	(1,241)	(13,154)	(12,979)
<b>Total assets less current liabilities</b>		244,442	244,062	222,412	221,914
<b>Creditors: amounts falling due after more than one year</b>	18	(47,848)	(47,848)	(50,074)	(50,074)
<b>Pension Provision</b>	20	(448)	(448)	–	–
<b>NET ASSETS</b>		196,146	195,766	172,338	171,840
<b>Deferred capital grants</b>	21	59,779	59,779	58,669	58,669
<b>Endowments</b>					
Specific	22	44,640	44,640	38,047	38,047
General	22	6,746	6,746	6,445	6,445
		51,386	51,386	44,492	44,492
<b>Reserves</b>					
Revaluation reserve	23	–	–	942	942
General reserve	24	84,981	84,601	68,235	67,737
		84,981	84,601	69,177	68,679
<b>TOTAL</b>		196,146	195,766	172,338	171,840

The financial statements on pages 8 to 27 were approved by the Council on 21 November 2006 and were signed on its behalf



Lord Grabiner of Aldwych



Howard Davies





Ze Lim – LLB Bachelor of Laws

	NOTES	2006 £'000	2005 £'000
Cash flow from operating activities	25	21,804	13,355
Returns on investments and servicing of finance	26	19	(365)
Capital expenditure and financial investment	27	(3,773)	(25,733)
Management of liquid resources	28	(10,000)	17,000
Financing	29	(16,257)	5,060
<b>(Decrease)/increase in cash in the period</b>	30	<b>(8,207)</b>	<b>9,317</b>
<b>Reconciliation of net cash flow to movements in net funds/debt</b>			
(Decrease)/increase in cash in the period		(8,207)	9,317
Cash inflow from new secured loans	29	–	(10,000)
Cash outflow/(inflow) from liquid resources	28	10,000	(17,000)
Changes in net debt resulting from cash flows	29	16,257	4,940
Movements in net debt in period		18,050	(12,743)
Net debt at 1 August 2005/2004		(44,312)	(31,569)
Net debt at 31 July 2006/2005		(26,262)	(44,312)

**1 FUNDING COUNCIL GRANTS**

	NOTES	2006 £'000	2005 £'000
<b>From the HEFCE</b>			
Block Recurrent		24,774	21,489
Library Grants		234	262
Higher Education Innovations Fund		466	720
Recruitment and Retention		–	955
Project Capital Round 2/3		163	231
Other Specific Grants		277	191
Deferred Capital Grants Released in Year	21	572	383
		26,486	24,231
<b>From the Joint Information Systems Committee and Other Grants</b>		384	446
		26,870	24,677

**2 TUITION FEES AND EDUCATION CONTRACTS**

Tuition Fees:			
Home/EU Students		17,936	15,150
Overseas Students		49,350	44,354
TRIUM MBA		881	826
Short Courses		3,938	2,869
Examination and Other Fees		211	151
		72,316	63,350

**3 RESEARCH GRANTS AND CONTRACTS**

Research Councils		5,944	5,221
Government Departments		1,866	2,233
Charities		1,602	1,977
European Community		1,764	1,406
Other Outside Bodies		2,718	2,768
Specific Endowments	5	1,467	1,427
		15,361	15,032

Residual income on completed research grants and contracts that was previously disclosed within Note 4, Other Income, is now included within Research Grants and Contracts.

**4 OTHER INCOME**

Residences and Catering		16,484	15,242
Rental Income		1,751	1,586
Overheads – Reimbursed		295	232
Publications		900	789
Library		1,001	917
External Study Programme		2,549	2,336
Consultancy Services and Executive Education		4,476	2,723
VAT Partial Exemption Scheme		351	277
Application Fees		446	471
Staff and Student Facilities		716	660
Departmental Outside Funds		1,657	1,190
Research balances transferred to Reserves		–	955
Donations towards Estates Projects		–	800
Release of deferred Capital Donations	21	365	351
Sundry		226	167
		31,217	28,696

Residual income on completed research grants and contracts that was previously disclosed within Other Income, is now included within Note 3, Research Grants and Contracts.

**5 ENDOWMENT AND INVESTMENT INCOME**

Transferred from Specific Endowments	22	4,030	3,936
Donations for General Purposes	22	71	19
Investment of General Endowments			
Interest and Dividends Receivable	22	178	172
Investment of General Funds			
Interest and Dividends Receivable		868	695
Realised Capital Profit		–	97
Research Grants and Contracts funded by Specific Endowments	3	(1,467)	(1,427)
		3,680	3,492



Stelios Haji-Ioannou with Stelios Scholars

**6 STAFF COSTS**

	<b>2006</b> £'000	<b>2005</b> £'000
Total staff costs for the year were:		
Wages and Salaries	65,946	61,357
Social Security Costs	5,745	5,313
Other Pension Costs	6,469	6,075
	<b>78,160</b>	<b>72,745</b>

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

	<b>2006</b> Number	<b>2005</b> Number
Academic Departments	715	702
Library and IT Services	186	158
Research Grants and Contracts	227	229
General Educational Expenditure	2	2
Premises	82	83
Administration and Central Services	274	298
Staff and Student Facilities	33	28
Other Operating Expenditure	49	45
Student Residences	118	133
Central Catering	46	46
	<b>1,732</b>	<b>1,724</b>

Following an internal reorganisation 28 staff have transferred from Administration to Library and IT Services.

	<b>2006</b> £'000	<b>2005</b> £'000
<b>Directors' Remuneration</b>		
<b>Directors</b>		
Emoluments (2005-06 – 11 Directors ; 2004-05 – 10 Directors)	914	812
Retirement benefits are accruing to 9 directors under a defined benefit scheme, USS.		
<b>Highest paid director</b>		
Emoluments	226	214
Defined benefit pension scheme:		
Accrued pension at end of year	4	2
Accrued lump sum at end of year	12	7
<b>Emoluments of the Director</b>		
Salary	210	194
Benefits in kind	16	20
	<b>226</b>	<b>214</b>
Pension contributions	29	27
	<b>255</b>	<b>241</b>

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



**6 STAFF COSTS (Continued)**

	Higher Paid Employees	
	2006 Number	2005 Number
The number of other Higher Paid Staff (excluding the Director) but including directors who received emoluments including benefits in kind but excluding employer's pension contributions in the following ranges was:		
£70,001 – £80,000	48	51
£80,001 – £90,000	39	31
£90,001 – £100,000	17	8
£100,001 – £110,000	7	8
£110,001 – £120,000	7	6
£120,001 – £130,000	2	1
£130,001 – £140,000	4	5
£140,001 – £150,000	1	1
£150,001 – £160,000	1	–
	126	111

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

A higher paid employee who received a severance package in 2004/05 became entitled to a further sum of £72,000 in 2005/06

	2006 £'000	2005 £'000
<b>7 OTHER OPERATING EXPENSES</b>		
Academic Departments	4,931	3,109
Library and IT Services	4,586	4,259
Research Grants and Contracts	3,170	2,884
General Educational Expenditure	9,235	8,009
Premises	9,092	10,239
Administration and Central Services	3,012	2,966
Staff and Student Facilities	752	982
Residences and Catering	9,407	8,009
Miscellaneous	7,123	5,800
	51,308	46,257
Other operating expenses include:		
Auditors' remuneration – external audit	52	51
Auditors' remuneration – other services	25	19

**8 INTEREST PAYABLE**

Loans repayable within five years	–	72
Loans not wholly repayable within five years	2,830	2,348
	2,830	2,420
Finance Leases	–	430
	2,830	2,850



**9 EXCEPTIONAL ITEMS**

	<b>2006</b> £'000	<b>2005</b> £'000
External Programme	1,430	–
Liquidation of School Investments	742	–
	<b>2,172</b>	<b>–</b>

The School has received payment from the University of London in respect of surpluses from the External programme for 2003/04, 2004/05 and reimbursement of costs incurred by the school but recoverable from the University.

All of the School's Fixed Asset investments were liquidated during the year crystallising a capital gain of £742,000 (see note 12).

**10 INTANGIBLE FIXED ASSETS**

<b>Group</b>		<b>Research and Development</b> £'000
<b>COST</b>		
As at 1 August 2005 and 31 July 2006		103
<b>DEPRECIATION</b>		
As at 1 August 2005 and 31 July 2006		103
<b>NET BOOK VALUE</b>		
As at 1 August 2005 and 31 July 2006		–

The Intangible Fixed Asset is capitalised software development costs in Enterprise LSE Limited.

**School**

There are no intangible assets in the School's accounts.



Kate Dharmasena – BSc Sociology

**11 TANGIBLE FIXED ASSETS**

	LAND AND BUILDINGS			EQUIPMENT £'000	TOTAL £'000
	FREEHOLD £'000	LEASEHOLD £'000			
<b>GROUP</b>					
<b>Cost</b>					
As at 1 August 2005	177,496	16,912	7,011	201,419	
Additions in Year	10,282	4,683	10	14,975	
As at 31 July 2006	187,778	21,595	7,021	216,394	
<b>Depreciation</b>					
As at 1 August 2005	12,290	2,205	4,179	18,674	
Charge for Year	2,427	321	612	3,360	
As at 31 July 2006	14,717	2,526	4,791	22,034	
<b>Net Book Value</b>					
As at 1 August 2005	165,206	14,707	2,832	182,745	
As at 31 July 2006	173,061	19,069	2,230	194,360	

	LAND AND BUILDINGS			EQUIPMENT £'000	TOTAL £'000
	FREEHOLD £'000	LEASEHOLD £'000			
<b>SCHOOL</b>					
<b>Cost</b>					
As at 1 August 2005	177,496	16,262	6,805	200,563	
Additions in Year	10,282	4,683	1	14,966	
As at 31 July 2006	187,778	20,945	6,806	215,529	
<b>Depreciation</b>					
As at 1 August 2005	12,290	2,136	3,995	18,421	
Charge for Year	2,427	309	605	3,341	
As at 31 July 2006	14,717	2,445	4,600	21,762	
<b>Net Book Value</b>					
As at 1 August 2005	165,206	14,126	2,810	182,142	
As at 31 July 2006	173,061	18,500	2,206	193,767	

**Group and School**

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

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



**12 INVESTMENTS WITHIN FIXED ASSETS – Group and School**

	<b>2006</b> £'000	<b>2005</b> £'000
<b>Movement in the year</b>		
Balance at 1 August	8,109	7,070
Appreciation of assets including reinvested profits on sales	742	1,039
Additions	–	3,826
Disposals	(8,851)	(3,826)
Balance at 31 July	–	8,109
<b>Analysis of closing balance</b>		
UK Equities	–	3,245
Overseas Equities	–	2,100
Gilts	–	784
UK Corporate Bonds	–	1,219
Other	–	761
Invested	–	8,109

The School's investments were liquidated during the year.

**13 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS**

	<b>Group</b> <b>2006</b> £'000	<b>School</b> <b>2006</b> £'000	<b>Group</b> <b>2005</b> £'000	<b>School</b> <b>2005</b> £'000
Subsidiary Companies	–	150	–	150

Principal subsidiaries are:

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

All of the above are registered in England.

The results of the following subsidiaries are also consolidated;

LSE Foundation (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. The trust was closed down during the year.

**14 INVESTMENTS IN JOINT VENTURES**

	<b>Group</b> <b>2006</b> £'000	<b>School</b> <b>2006</b> £'000	<b>Group</b> <b>2005</b> £'000	<b>School</b> <b>2005</b> £'000
Joint Ventures	81	–	220	–

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 2005/06 but the 2004/05 Accounts show the School's share of Turnover to be £45,000 and Operating Profit to be £6,000. 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 FRS 9.

**15 ENDOWMENT ASSETS – Group and School**

	<b>2006</b> £'000	<b>2005</b> £'000
<b>Movement in the year</b>		
Balance at 1 August	44,492	39,040
Additions	8,072	12,280
Disposals	(2,874)	(10,635)
Appreciation of assets including reinvested profits on sales	1,745	3,856
Depreciation of Freehold Property	(49)	(49)
Balance at 31 July	51,386	44,492
<b>Analysis of closing balance</b>		
UK Equities	16,237	14,100
Overseas Equities	4,770	3,914
Gilts	6,306	5,485
UK Corporate Bonds	8,847	8,466
Other	1,683	1,152
Money Market Funds	597	598
Invested	38,440	33,715
Freehold Property	2,176	2,225
Uninvested Cash	10,770	8,552
	51,386	44,492

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

**16 DEBTORS**

	<b>Group 2006</b> £'000	<b>School 2006</b> £'000	<b>Group 2005</b> £'000	<b>School 2005</b> £'000
<b>Amounts falling due within one year:</b>				
Trade Debtors	4,447	3,876	3,237	2,610
Research Balances	2,174	2,174	2,039	2,039
Amounts due from Subsidiary Undertakings	–	3,049	–	2,294
Staff Loans for Housing	10	10	16	16
Other Debtors	5,030	4,886	4,251	4,148
Prepayments and Accrued Income	1,790	1,332	640	506
	13,451	15,327	10,183	11,613
<b>Amounts falling due after more than one year:</b>				
Trade Debtors	297	297	179	179
Staff Loans for Housing	27	27	37	37
	324	324	216	216
Total	13,775	15,651	10,399	11,829

**17 CASH AT BANK AND IN HAND**

	<b>Group 2006</b> £'000	<b>School 2006</b> £'000	<b>Group 2005</b> £'000	<b>School 2005</b> £'000
Fixed Term Deposits	4,000	4,000	–	–

**18 CREDITORS**

	<b>Group 2006</b>	<b>School 2006</b>	<b>Group 2005</b>	<b>School 2005</b>
	£'000	£'000	£'000	£'000
<b>Amounts falling due within one year:</b>				
Bank Loans	2,226	2,226	2,226	2,226
Obligations under Finance Lease	–	–	14,031	14,031
Trade Creditors	3,589	3,580	3,754	3,750
Research Balances	4,775	4,775	4,208	4,208
Short Courses	39	39	12	12
Amounts due to Subsidiary Undertakings	–	1,070	–	1,347
Taxation and Social Security	2,515	2,512	2,278	2,292
Other Creditors	1,230	1,230	1,246	1,220
Accrual for Building Works	1,838	1,838	1,180	1,180
Accruals and Deferred Income	12,058	10,910	8,170	7,414
	<b>28,270</b>	<b>28,180</b>	<b>37,105</b>	<b>37,680</b>
<b>Amounts falling due after one year:</b>				
Bank Loans	47,848	47,848	50,074	50,074

**19 BORROWINGS**

	<b>Group 2006</b>	<b>School 2006</b>	<b>Group 2005</b>	<b>School 2005</b>
	£'000	£'000	£'000	£'000
<b>Bank loans are repayable as follows:</b>				
In one year or less	2,226	2,226	2,226	2,226
Between one and two years	2,226	2,226	2,226	2,226
Between two and five years	6,678	6,678	6,678	6,678
In five years or more	38,944	38,944	41,170	41,170
	<b>50,074</b>	<b>50,074</b>	<b>52,300</b>	<b>52,300</b>
<b>Finance Leases</b>				
The net finance lease obligations to which the School is committed are:				
In one year or less	–	–	14,031	14,031

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

The School has entered into interest rate swap agreements totalling £65,000,000.

The effective fixed rate costs of the loans and swaps taken together is between 5% and 5.5%.

A Finance Lease of £Nil (2005: £14,031,000) was subject to a notional interest rate (7.058%) assumed in the lease cash flows and was secured on a Student Residence. During the year the School exercised an option to repay the capital sum.



**20 PENSION PROVISION – Group and School**

	<b>Pensions Supplementation</b> £'000
As at 1 August 2005	–
Transferred from Income and Expenditure Account	448
As at 31 July 2006	448

The pensions supplementation provision is in respect of pension enhancements payable to staff who have retired under the previous superannuation scheme for academic and related staff, FSSU, in accordance with FRS 17, 'Retirement benefits'.

**21 DEFERRED CAPITAL GRANTS – Group and School**

	<b>NOTES</b>	<b>FUNDING COUNCIL</b> £'000	<b>OTHER GRANTS AND DONATIONS</b> £'000	<b>TOTAL</b> £'000
As at 1 August 2005		31,775	26,894	58,669
Cash Received		1,465	536	2,001
Transferred from Endowments	22	–	150	150
Released to Income and Expenditure Account – School	1 & 4	(572)	(365)	(937)
Released to Income and Expenditure Account – Halls		(19)	(85)	(104)
As at 31 July 2006		32,649	27,130	59,779

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

**22 ENDOWMENTS – Group and School**

	<b>NOTES</b>	<b>SPECIFIC</b> £'000	<b>GENERAL</b> £'000	<b>TOTAL</b> £'000
At 1 August 2005		38,047	6,445	44,492
Additions	5	7,420	71	7,491
Appreciation of Endowment Asset Investments		1,550	196	1,746
Investment Income	5	1,803	178	1,981
Depreciation of Freehold Property		–	(49)	(49)
Transferred to Income and Expenditure Account	5	(4,030)	(95)	(4,125)
Transferred to Deferred Capital Grants	21	(150)	–	(150)
At 31 July 2006		44,640	6,746	51,386

**23 REVALUATION RESERVE**

	<b>Group 2006</b> £'000	<b>School 2006</b> £'000	<b>Group 2005</b> £'000	<b>School 2005</b> £'000
As at 1 August	942	942	–	–
Revaluation of Fixed Asset Investments	–	–	942	942
Transfer to General Reserve	(942)	(942)	–	–
As at 31 July	–	–	942	942

All of the School's Fixed Asset Investments have been sold and the revaluation gain has now been realised.

**24 MOVEMENTS ON GENERAL RESERVE**

	<b>Group 2006</b> £'000	<b>School 2006</b> £'000	<b>Group 2005</b> £'000	<b>School 2005</b> £'000
As at 1 August	68,235	67,737	58,111	57,542
Surplus for the Year	15,804	15,922	10,124	10,195
Transfer from Revaluation Reserve	942	942	–	–
As at 31 July	84,981	84,601	68,235	67,737

**25 RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	2006		2005	
	£'000	£'000	£'000	£'000
Surplus of Income over Expenditure for the Year on Total Activity Before Tax		15,909		10,148
<b>Adjustment for Depreciation and Deferred Capital Grants</b>				
Depreciation	3,409		3,247	
Deferred Capital Grants Released	(1,041)		(838)	
		2,368		2,409
<b>Adjustment for Investment and Financing Cash Flows</b>				
Investment Income Receivable	(1,046)		(867)	
Profit on Disposal/Revaluation of Investments	(742)		(97)	
Interest Payable	2,830		2,850	
		1,042		1,886
<b>Adjustment for Restricted Fund Cash Flows</b>				
Transfer to Income and Expenditure Account	(4,030)		(3,936)	
Additions to Funds	4,091		3,200	
		61		(736)
<b>Adjustment for Joint Venture Profit</b>		139		(60)
<b>Adjustments to Working Capital</b>				
Decrease/(Increase) in Stocks	17		(18)	
(Increase)/Decrease in Debtors	(3,376)		2,365	
(Decrease)/Increase in Creditors	(8,835)		8,993	
Less relating to:				
Bank Loans/Finance Leases	14,031		(11,632)	
		1,837		(292)
<b>Adjustment for Pension Provision</b>		448		–
<b>Net cash Inflow from Operating Activities</b>		21,804		13,355

**26 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE**

	2006	2005
	£'000	£'000
Income from Endowments	1,981	1,790
Other Investment Income	868	695
Interest Payable	(2,830)	(2,850)
	19	(365)

**27 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT**

	2006	2005
	£'000	£'000
Payments to Acquire Tangible Fixed Assets	(14,975)	(36,113)
Payments to Acquire Intangible Fixed Assets	–	14
Payments to Acquire Investments	(5,853)	(15,783)
Receipts from Sales of Investments	11,725	14,461
Deferred Capital Grants/Donations Received	2,001	10,455
Permanent Endowments Received	3,329	1,233
	(3,773)	(25,733)

28 MANAGEMENT OF LIQUID RESOURCES		2006	2005
		£'000	£'000
Cash (Added to)/Withdrawn from Fixed Term Deposits		(10,000)	17,000

29 FINANCING		2006	2005
		£'000	£'000
Bank Loan Repayments		(2,226)	(4,940)
Finance Lease Repaid		(14,031)	–
New Loans		–	10,000
		(16,257)	5,060

30 ANALYSIS OF CHANGES IN NET DEBT				
	At 1 August 2005	Cash Flows	Other Changes	At 31 July 2006
	£'000	£'000	£'000	£'000
Cash at Bank and in Hand	13,467	(4,425)	–	9,042
Endowment Cash	8,552	2,218	–	10,770
Less: Fixed Term Deposits within Endowment Cash	(4,000)	(6,000)	–	(10,000)
	18,019	(8,207)	–	9,812
Fixed Term Deposits	4,000	10,000	–	14,000
Debt due within one year	(16,257)	16,257	(2,226)	(2,226)
Debt due after one year	(50,074)	–	2,226	(47,848)
	(44,312)	18,050	–	(26,262)

### 31 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. The School is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if were a defined contribution scheme. As a result, the amount charged to the Income and Expenditure Account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the Scheme was at 31 March 2005. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.5% per annum, salary increases would be 3.9% per annum (plus an additional allowance for increases in salaries due to age and promotion in line with recent experience) and pensions would increase by 2.9% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.2% per annum, including an additional investment return assumption of 1.7% per annum, salary increases would be 3.9% per annum (also plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 2.9% 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 £21,740 million and the value of the past service liabilities was £28,308 million leaving a deficit of £6,568 million. The assets therefore were sufficient to cover 77% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126% funded at that date; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 74% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS 17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 90%.

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



Surpluses or deficits which arise at future valuations may impact on the School's future contribution commitment. An additional factor which could impact the funding level of the scheme is that with effect from 16 March 2006, USS positioned itself as a 'last man standing' scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation.

The total pension cost for the School was £5,600,000 (2005 £5,235,000). The contribution rate payable by the School was 14% of pensionable salaries.

The scheme is open to the School's academic and academic-related support staff. As at 31 July there were 958 staff who were members of the scheme.

## (ii) SAUL

The School participates in the Superannuation Arrangements of the University of London (SAUL), a centralised defined benefit scheme for all qualified employees with the assets held in separate Trustee-administered funds. The School has adopted FRS 17 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 FRS 17.

The scheme is subject to triennial valuation by professionally qualified and independent actuaries. The last available valuation was carried out as at 31 March 2005 using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The following assumptions were used to assess the past service funding position and future service liabilities :

Valuation method	Projected unit	
	Past Service	Future Service
Investment return on liabilities		
– before retirement	5.5% p.a.	6.5% p.a.
– after retirement	4.5% p.a.	4.5% p.a.
Salary growth (excluding an allowance for promotional increases)	4.15% p.a.	4.15% p.a.
Pension increases	2.65% p.a.	2.65% 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 £982 million representing 93% of the liability for benefits after allowing for expected future increases in salaries.

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

Following this consultation, the Employers have agreed to contribute 13% of salaries from August 2006 (previously 10.5% of salaries), an increase of 2.5% of salaries. Member contributions are also to increase, by 1% of salaries to 6% of salaries with effect from the same date.

Employers who have recently joined SAUL ('New Employers') and certain employee groups (as agreed by the Trustees of SAUL), will pay 19.2% of salaries per annum from August 2006 until the second actuarial valuation after entry (or some other period as agreed with the Trustees).

A comparison of SAUL's assets and liabilities calculated using assumptions consistent with FRS 17 revealed the Scheme to be broadly balanced at the last formal valuation date (31 March 2005).

The next formal actuarial valuation is due as at 31 March 2008 when the above rates will be reviewed.

The scheme is open to the School's secretarial/clerical/technical staff. As at 31 July there were 423 staff who were members of the scheme.

- (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. At the year end a provision has been established to meet the future obligations, see note 20.

## 32 CAPITAL COMMITMENTS

	Group 2006 £'000	School 2006 £'000	Group 2005 £'000	School 2005 £'000
24 Kingsway	39,960	39,960	43,903	43,903
Mobil Court, Tower 1 and 2 Refurbishment	–	–	6,414	6,414
	39,960	39,960	50,317	50,317

**33 OPERATING LEASES**

	<b>Group 2006</b>	<b>School 2006</b>	<b>Group 2005</b>	<b>School 2005</b>
	£'000	£'000	£'000	£'000
At 31 July the School had annual commitments under non-cancellable operating leases as follows:				
<b>Land and buildings</b>				
Expiring in over five years	4,375	4,375	3,287	3,287

**34 RELATED PARTY TRANSACTIONS**

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

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

**35 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.

**36 ACCESS FUNDS – Consolidated and School**

	<b>2006</b>	<b>2005</b>
	£'000	£'000
Balance Unspent as at 1 August	38	27
Funding Council Grants	130	130
Interest Earned	2	2
Disbursed to Students	(121)	(121)
Balance Unspent as at 31 July	49	38

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 £7,045,000 during the year on Student Support using general funds and trust funds to support hardship grants and merit awards.

**37 FUNDING OF TANGIBLE FIXED ASSETS**

	<b>At 1 August 2005</b>	<b>Additions funded by Loans and General Reserves</b>	<b>Additions funded by Deferred Capital Grants</b>	<b>Depreciation</b>	<b>At 31 July 2006</b>
	£'000	£'000	£'000	£'000	£'000
Land and Buildings	179,913	12,814	2,151	(2,748)	192,130
Equipment	2,832	10	–	(612)	2,230
	182,745	12,824	2,151	(3,360)	194,360
<b>Funded by:</b>					
Deferred Capital Grants	58,669				59,779
Bank Loans	66,331				50,074
General Reserves	57,745				84,507
	182,745				194,360

**38 POST BALANCE SHEET EVENT**

The School has exchanged contracts to sell its Silverwalk student houses in excess of carrying value.

## 39 FIVE YEAR GROUP FINANCIAL SUMMARY

	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000
<b>Income</b>					
Funding Council Grants	26,870	24,677	24,048	22,011	18,748
Tuition fees and education contracts	72,316	63,350	59,392	57,928	48,007
Research grants and contracts	15,361	15,032	14,192	14,098	12,205
Other income	31,217	28,696	27,574	24,115	23,808
Endowment and investment income	3,680	3,492	3,918	3,432	1,576
<b>Total Income</b>	<b>149,444</b>	<b>135,247</b>	<b>129,124</b>	<b>121,584</b>	<b>104,344</b>
<b>Expenditure</b>					
Staff costs	78,160	72,745	68,080	62,051	56,609
Other operating expenses	51,308	46,257	45,683	41,577	39,923
Depreciation	3,409	3,247	3,261	2,901	2,810
Interest payable	2,830	2,850	3,327	3,810	4,173
<b>Total Expenditure</b>	<b>135,707</b>	<b>125,099</b>	<b>120,351</b>	<b>110,339</b>	<b>103,515</b>
<b>Exceptional items</b>	<b>2,172</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Surplus for the year</b>	<b>15,909</b>	<b>10,148</b>	<b>8,773</b>	<b>11,245</b>	<b>829</b>
<b>Net Assets</b>	<b>196,146</b>	<b>172,338</b>	<b>145,661</b>	<b>130,714</b>	<b>110,107</b>
Deferred Capital Grants	59,779	58,669	48,510	45,129	36,760
Endowments	51,386	44,492	39,040	35,843	34,763
Reserves	84,981	69,177	58,111	49,742	38,584
<b>Total</b>	<b>196,146</b>	<b>172,338</b>	<b>145,661</b>	<b>130,714</b>	<b>110,107</b>



Financial Support Office staff receiving a Customer Service Champions award from Adrian Hall



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

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

The principal statutory bodies of the School are as follows.

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

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

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

The Council is the governing body of the School and its formal powers and terms of reference are set out in the Articles. Its primary role is to agree strategic direction and to maintain a focus on areas identified in the strategic plan (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, a Risk Committee, an External Relations Committee, a Library and Information Services Committee, a Health and Safety Committee, an Audit Committee and a Chairman's Group.

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

The Academic Board, which also reports to the Council, is the principal academic body of the School. It considers all major issues of general policy affecting the academic life of the School and its development. It is supported by its own structure of committees and there are mechanisms for ensuring the exchange of business between it and Council.

### **Internal Control**

1. As the governing body of the School, the Council has responsibility for maintaining a sound system of internal control that supports the achievement of strategic and operational objectives, while safeguarding the public and other funds and assets for which it is responsible under the terms of the Articles and the Financial Memorandum with the HEFCE.
2. The system of internal control is designed to manage rather than to eliminate the risk of failure to achieve objectives, including missing appropriate opportunities. It can therefore only provide reasonable and not absolute assurance of effectiveness.
3. The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of aims and objectives; to evaluate the nature and extent of those risks, and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 July 2006 and up to the date of approval of the financial statements and is in accordance with HEFCE guidance.
4. As the governing body, the Council has the responsibility for reviewing the effectiveness of the system of internal control, and the following processes have been established in order to carry through that responsibility.
  - 4.1 Council meets three times each term. Part of its remit is to review key elements of the strategic direction of the School. These reviews include consideration of risk and control factors in relation to the School's strategic objectives, continuing operations and proposed new developments. The strategic plan incorporates specific measures of achievement and supporting performance indicators for each of the key strategic objectives, and regular reports are made to Council on progress towards achieving these measures and indicators.
  - 4.2 The governance arrangements proposed in the guide issued by the Committee of University Chairmen in 2004 have been reviewed in detail and Council confirms that it complies with the recommendations of the guide in all material respects.
  - 4.3 Council takes a close role in the monitoring and management of risk through its Risk Committee which reports directly to Council and is concerned primarily with strategic risks, but also with the overall arrangements for the management of operational risks and the further embedding of a risk-aware culture in the School. The detailed work in relation to operational risk and embedding procedures is undertaken by a Risk Management Group, which reports to the Risk Committee.
  - 4.4 The Finance and General Purposes Committee also plays a significant role in relation to risk by advising Council on financial risks to the Strategic Plan, including the financial implications of non-financial risks.
  - 4.5 The primary focus of the Risk Committee's deliberations during the year under review has been the risks arising from the joint ventures and other collaborations with which the School is involved and the arrangements in place for responding to emergencies and ensuring business continuity. These were also the topics considered at a joint meeting of the Audit and Risk Committees held in early 2006 at which the respective roles of the two committees in relation to risk management were also clarified. Specific actions were agreed to improve the School's management of risk in both of these areas. Further work is to be done in assessing the risks arising from the School's association with a number of other entities with which it has connections.

- 4.6 The identification of new and emerging strategic and operational risks arises primarily from regular meetings held by senior School officers and heads of administrative divisions, which are then evaluated through the Risk Committee or Risk Management Group as appropriate. Where risk assessment by administrative officers has identified that urgent Council consideration is required, risks are addressed directly to Council, for example in relation to proposed major capital projects or third party collaborations.
- 4.7 The work of the Risk Management Group over the past year has been to take forward the further embedding of risk management practices and training. A specific example of the action taken is that Heads of Academic Departments were addressed by the Chair of Risk Committee and an agreed document produced setting out the responsibilities of Department Heads in this area. Other topics considered by the Group included emergency procedures and further refinement of the risk register. Additional resource has been provided in the coming year for the development and refinement of measures for the further embedding of a culture of risk awareness.
- 4.8 The Audit Committee receives regular reports on the work of the Risk Committee and the Risk Management Group. The Head of Internal Audit also reports regularly to the Audit Committee on the adequacy and effectiveness of the constituent elements of the School's system of internal control, together with recommendations for improvements. Internal audit's work includes continuing review of the strategic and operational risks associated with the key systems and units examined. The basis on which internal audit is provided has been reviewed during the year and it has been decided to continue with a small in-house team although with increased resources.
5. Council's view of the effectiveness of the system of internal control is informed by reports from the Audit Committee, which receives and analyses regular reports from internal audit on all major systems and departments. The internal audit unit, which operates to standards defined in the HEFCE Code of Practice on Accountability and Audit, was last reviewed for effectiveness by the HEFCE Audit Service in June 2005. The Head of Internal Audit provides an annual independent opinion on the adequacy and effectiveness of the overall system of internal control.
6. Council's view is also informed by comments made by the external auditors in their management letters and other reports and by the work of operational managers within the School who have responsibility for the development and maintenance of the internal control framework.



Victoria Hands – Environmental and Sustainability Coordinator



Sir Nicholas Stern spoke about his report, *The Economics of Climate Change*, at LSE in November 2006

**In April 2005 Council agreed an Environmental Policy. In order to ensure that all of its activities are carried out in compliance with environmental regulations and in a sustainable manner, LSE makes the following commitments.**

**Urban environment**

The School will endeavour to provide a more social and convivial built environment to its community, so as to favour a more social use of space.

**New buildings**

The School will seek to ensure that all impacts of the construction process are minimised eg. by taking a 'whole life approach' and that all new buildings comply with the highest environmental standards.

**Existing buildings**

The School will work to ensure that the management of the campus and the halls of residence minimise the environmental impacts of the energy and materials that they consume eg. by taking a 'whole life approach'.

**Purchasing policies**

The School will work with its partners to minimise the environmental impacts of the energy and materials that it purchases.

**Waste management**

The School will work to ensure that all wastes are disposed of in an environmentally friendly and sustainable way, informed as widely as possible by the 'reduce-reuse-recycle' criterion.

**Water management**

The School will work to ensure that more efficient systems of water management are introduced within the School premises.

**Energy management**

The School will work to ensure that the energy efficiency of its buildings and equipment is maximised.

**Travel**

The School will encourage staff and students to use more sustainable modes of transport such as cycling as they travel to and from LSE. It will also provide facilities such as video conferencing that reduce the need for business travel, and it will investigate the ways in which the impacts of any remaining travel can be minimised and/or off-set.

**Contractors**

The School will work to ensure that its contractors, sub-contractors and suppliers also work towards high standards of environmental performance.

**Local communities**

The School will endeavour to be a good neighbour and a constructive partner in local initiatives.

**Communication**

As part of all the above activities, the School will favour awareness raising among staff and students by means of a clear, varied and interactive communication strategy.

**Reporting**

As part of its EMS, the School will also develop a comprehensive and clear set of indicators and performance measures to monitor the different aspects of its environmental performance, and it will publish details of its activities and its performance in a yearly report that will be published on its web-pages and made available to staff, students and the public.

**Shaping public policy**

The School will seek to use its academic resources to shape public policy on environmental issues and to ensure that LSE remains at the forefront of academic investigation and public debate in this area.

## Endowment Investment Performance

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

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

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

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

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

The capital value of a unit in Pool A rose from £18.13 to £19.20 during the year, a gain of 5.9%. A distribution of 72.87 pence per unit was made in the year, equivalent to a yield of 4.0% on the opening market value giving a total return of 9.9% for the year. The unit value of Pool B rose by 6.0% from £19.64 to £20.82 and a distribution of 75.76 pence was made equivalent to a yield of 3.9% giving a total return of 9.9% for the year. The market value

of the FER investments grew by 4.4% and a distribution equivalent to 4.3% of the opening market value was made producing a total return of 8.7% for the year. The underlying investments tracked their indices within acceptable margins.

These investments are monitored by the School's Investments Committee and external advisors are used to advise on investment strategy. The committee has adopted a passive investment strategy investing the School's portfolio mainly into tracker funds. Pool A has also placed 10% into an Absolute Return Fund. Asset Allocation targets and tolerance bands for each pool have been set by Investments Committee.

	Market Value 31 July 2006 £	Asset Allocation Target %	Tolerance Band %	31 July 2006 Actual Value %
<b>POOL A</b>				
UK Equities	6,341,879	40	35-45	39.7
Overseas Equities	4,003,051	25	20-30	25.1
Bonds	2,385,007	15	12-18	14.9
Inflation Linked Gilts	1,551,126	10	8-12	9.7
Absolute Return	1,683,444	10	0-15	10.6
Cash	–	–	0-2	–
	15,964,507	100		100
<b>POOL B</b>				
UK Equities	3,497,170	45	40-50	46.8
Overseas Equities	766,893	10	7-13	10.3
Bonds	1,317,125	20		
			35-50	38.5
Gilts	1,555,995	20		
Cash	330,893	5	0-5	4.4
	7,468,076	100		100
<b>FER</b>				
UK Equities	6,397,418	40	35-45	43.5
Bonds	5,144,917	38.5		
			50-65	54.7
Gilts	2,896,944	19.5		
Cash	266,352	2	0-3	1.8
	14,705,631	42		100
Other Gilts	301,931			
<b>TOTAL PORTFOLIO</b>	38,440,145			

Further information on the School's Endowment Assets and Endowment Funds is in Notes 15 and 22.



## 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.



### 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 2006, 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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view. 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 School has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We report to you whether, in our opinion, the information given in the Report of the Chairman of the Court of Governors or the Report of the Director is consistent with the financial statements.

### Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board,

and the Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in 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:

- (i) 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 2006, and of the surplus of income over expenditure, recognised gains and losses and cashflows of the School and the group for the year then ended; and the statements have been properly prepared in accordance with the Companies Act and the Statement of Recommended Practice on Accounting in Higher Education Institutions.
- (ii) The information given in the Report of the Chairman of Governors and the Report of the Director is consistent with the financial statements.
- (iii) In all material respects, income from the Higher Education Funding Council for England and income for specific purposes and from other restricted funds administered by the School have been applied only for the purposes for which they were received.
- (iv) In all material respects, income has been applied in accordance with the School's statutes and where appropriate in accordance with the financial memorandum with the Higher Education Funding Council for England dated 1 October 2003.

#### RSM Robson Rhodes LLP

Chartered Accountants and Registered Auditors  
Hemel Hempstead, England  
21 November 2006



The Odette sculptures have been placed around the campus as part of a programme of environmental improvements

## Officers Responsible for the School's Finances

**Lord Grabiner of Aldwych QC**

Chairman  
Court of Governors



**Sir Anthony Battishill**

Vice-Chairman  
Court of Governors



**Ms Presley Baxendale QC**

Vice-Chairman  
Court of Governors



**Brian Smith**

Chairman  
Finance and General  
Purposes Committee



**Mr Richard Goeltz**

Vice-Chairman  
Finance and General  
Purposes Committee



**Howard Davies**

Director



**Professor Tim Murphy**

Deputy Director  
(to 31 August 2006)



**Professor Paul Johnson**

Deputy Director



**Professor Sarah Worthington**

Deputy Director



**Dr Ray Richardson**

Deputy Director  
(from 1 September 2006)



**Mr Adrian Hall**

Secretary and Director  
of Administration



**Mr Andrew Farrell**

Director of Finance  
and Facilities



**Mr Michael Ferguson**

Director of the Finance Division



**Mr Nigel Stallard**

Assistant Finance Officer





## Directors of the School and members of the Council during the year 2005/06

Chairman: **Lord Grabiner of Aldwych QC**

Vice-Chairman: **Sir Anthony Battishill**

Vice-Chairman: **Ms Presiley Baxendale QC**

**Dr Ros Altmann**

**Mr Stephen Barclay** (appointed 1 August 2005)

**Professor Christopher Brown**

**Mr James Caspell** (appointed 1 November 2005)

**Howard Davies**

**Mr Mario Francescotti** (appointed 1 August 2005)

**Mr Richard Goeltz**

**Mr James Goudie QC**

**Mr Loyd Grossman**

**Professor Paul Johnson**

**Mr Joel Kenrick** (resigned 31 October 2005)

**Mr Wol Kolade**

**Dr David Lane**

**Ms Anne Lapping**

**Professor Dominic Lieven**

**Mr Rishi Madhani** (appointed 1 August 2005, resigned 31 July 2006)

**Professor Robin Mansell** (appointed 1 August 2005)

**Professor Peter Miller**

**Mr Ashley Mitchell**

**Professor Tim Murphy** (appointed 1 September 2005)

**Mr Avinash Persaud** (appointed 1 August 2005)

**Professor Richard Sennett** (appointed 1 August 2005)

**Mr Brian Smith**

## Members of the Council not Directors of the School

**Professor George Gaskell** (appointed 1 August 2005)

**Professor Janet Hartley**

**Professor Sarah Worthington** (appointed 1 September 2005)

## Company Secretary

**Mr Adrian Hall**





## LSE academic departments

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

## LSE research centres

Asia Research Centre  
BIOS (Centre for the Study of Bioscience,  
Biomedicine, Biotechnology and Society)  
ESRC Centre for Analysis of Risk and Regulation  
Centre for Analysis of Social Exclusion  
Centre for the Analysis of Time Series  
Centre for Civil Society  
Centre for Discrete and Applicable Mathematics  
Centre for Economic Performance  
Centre for the Economics of Education  
Centre for Philosophy of Natural  
and Social Science  
Centre for the Study of Global Governance  
Centre for the Study of Human Rights  
Centre for Urban Research  
Cold War Studies Centre  
Financial Markets Group  
Greater London Group  
LSE Environment  
LSE Health and Social Care  
LSE London

Mackinder Centre for the Study  
of Long Wave Events

Mannheim Centre for the Study  
of Criminology and Criminal Justice

Suntory and Toyota International Centres for  
Economics and Related Disciplines





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