

LSE

THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■

for the year ended 31 July 2010

Annual Accounts



Contents

	Page
Report of the Chairman of the Court of Governors	3
Report of the Director of the School	4-9
Report of the Directors	10
LSE and Public Benefit	11-16
Accounting Policies	17-18
Consolidated Income and Expenditure Account	19
Statement of Total Recognised Gains and Losses	20
Balance Sheets	21
Consolidated Cash Flow Statement	22
Notes to the Accounts	23-39
Five Year Analysis of Income and Expenditure	39
Corporate Governance and Internal Control Statement	40-41
Environmental Policy and Report on Progress	42
Endowment Investment Performance	43-44
Statement of Council's Responsibilities	45
Report of the Auditors	46
Officers Responsible for the School's Finances	47
Directors of the School and Members of the Council	48



Donors do us proud

In a recent message to LSE staff, Director Howard Davies highlighted the vital role that donations play in the success of the School. In tough financial times, he pointed out, they allow us to 'maintain a sense of momentum and improvement.' Donors, who have contributed over £13.5 million a year to the School for the past four financial years, help to develop its campus, and we hope that this will continue to be the case with the New Students' Centre. The building, which will open in 2013, is designed to high standards of environmental sustainability and has £1 million of its cost set aside for this purpose. But donations also enhance and expand the areas of global society which can be studied and analysed at LSE. The most recent example is the establishment of a new Middle East Research Centre which will focus new research on the politics, culture and economy of the region. Donors can also bring new opportunities, through scholarships and support, for students from disadvantaged backgrounds to study at LSE. So the generosity of donors, many of them former students, helps to ensure that LSE develops within sustainable limits while spreading its knowledge and expertise to the benefit of as many people as possible. Fiona Kirk, Director of Development, said: 'LSE is extremely grateful to all of the donors whose philanthropic donations to the School have considerably shaped our development and progress.'

About LSE

The London School of Economics and Political Science – LSE – studies the social sciences in their broadest sense, from economics, politics and law to sociology, anthropology, information systems, accounting and finance.

LSE was founded in 1895 by Beatrice and Sidney Webb, Graham Wallas and George Bernard Shaw. From that date LSE has aimed to be a laboratory of the social sciences, a place where ideas are developed, analysed, evaluated and disseminated around the globe. It is a world-class centre of research. But its mission to connect with the 'real world' of government, business and public life in general makes it a special kind of university. LSE academics are frequently in the news, commenting on the top issues of public life. The compact campus in the heart of London buzzes with intellectual exchange throughout the year. Speakers of world standing from the realms of politics, finance, business and current affairs as well as academic life choose LSE to deliver lectures and seminars on subjects of wide current interest. Most occasions in the resulting rich programme of events are open to the public as well as to LSE students and staff, and thousands of visitors attend from outside LSE each year.

LSE is one of the most international universities in the world. Most students, including the majority of postgraduates, come from outside the UK. So do many of the faculty. Partnerships with a select number of the finest social science universities in the world help to extend the LSE's reach globally, particularly in Asia, North America and now in Africa.

LSE has an outstanding reputation for academic excellence. This is recognised by its high standing in the many university league tables and in other measures of quality, for both teaching and research.

The LSE community

LSE has a cosmopolitan staff and student body, located within an urban city centre campus. It draws students from everywhere and from all social, educational and ethnic backgrounds. There are around 9,000 full-time students. They come from about 140 countries. The School is also in contact with alumni around the world.

The School has over 1,500 full-time and over 1,400 part-time members of staff. About 45 per cent are from countries outside the UK. LSE staff advise governments, public bodies and government inquiries, and are seconded to national and international organisations.

The School's governing body is the Council, responsible for determining strategy, and its members are company directors of the School. The Court of Governors deals with some constitutional matters and has influence in the School through pre-decision discussions on key policy issues and the involvement of individual governors in the School's activities.

Teaching and learning

Students at LSE receive research-led teaching from an internationally renowned academic staff. At the heart of this is intellectual challenge. Through exposure to the latest developments in social science and to the thinking of visiting world leaders, business figures and academics in debates and public lectures, students are challenged and inspired by LSE's vision of intellectual excellence combined with real-world engagement.

LSE offers a very wide range of undergraduate and postgraduate courses in the social sciences. Teaching is carried out through 23 academic departments and a number of interdisciplinary institutes, and in partnership with internationally known higher education institutions.

Economics is the largest department with over 1,000 students. Other large departments include Law, Accounting, Finance, Government and International Relations. Between them LSE departments span the full range of social science disciplines including Anthropology, Management, Philosophy, Mathematics, Statistics, Sociology and more.

Following a review by a Teaching Task Force, LSE is now spending an extra £4m per year to ensure that its teaching is of the highest quality.

LSE awards more than £10 million a year in student support, enabling talented students from all backgrounds to undertake programmes at all levels. A generous part of this funding comes from alumni, corporations, foundations and friends all over the world. In addition, many students secure external funding and many support themselves financially through part time work.

Research

The School is a world centre for advanced research. For example, LSE's Research Lab is the base for more than 260 staff – one of the largest concentrations of applied economic, financial and social researchers anywhere in the world, comprising five of LSE's 19 research centres. At LSE, the full range of social science expertise is covered.

LSE confirmed its position as a world-leading research university with outstanding success in the 2008 UK Research Assessment Exercise (RAE 2008). LSE had the highest percentage of world-leading research of any university in the country, topping or coming close to the top of a number of rankings of research excellence. It was judged:

- first when universities were ranked according to the percentage of their research receiving the top 4* (world-leading) grade;
- equal second in the UK when universities were ranked using a grade point average of their research strengths;
- fourth when universities were ranked according to the percentage of their research receiving either 4* or 3* (internationally excellent) grades.

LSE submitted over 90 per cent of eligible staff for assessment.

Individual subject areas at LSE also headed national tables of excellence in RAE 2008. LSE came top nationally by grade point average in Economics, Law, Social Policy and European Studies, with Anthropology coming second. If results were analysed by the percentage of research receiving a 4* grade, LSE came top in Anthropology.

The School is now concentrating on preparations for the replacement to the RAE – the Research Excellence Framework (REF). The REF will for the first time measure the impact of research, an area in which LSE has traditionally excelled.

Engagement

LSE's founders established the School to bring academic expertise to bear on the problems of society.

LSE academics are engaged in public debate and the policymaking process. They are frequently to be found in the media, commenting on issues from the global economy to the government of London. Many serve on government panels and advise international organisations, businesses and charities.

The public lectures programme at LSE embodies the School's engagement agenda and caters to the thirst for informed debate. Global leaders in politics, business and the academic world come to LSE to discuss the issues of the day. Most events are open to the general public; many are recorded and made available online – or webcast live – so that audiences globally may benefit.



The School is significantly upgrading its ability to transfer its knowledge and expertise to wider society, including through its external facing corporate website (www.lse.ac.uk) which includes new portals on LSE research and experts, the development of blogs by notable academics, and the introduction of media podcasts.

International partnerships

LSE forms part of a small global network of institutional partnerships with other universities of similar standing, offering joint teaching programmes that add to the School's current portfolio, help academics sustain international research links, improve the dissemination of research internationally and attract different sources of research funding.

There are institutional partnerships with Columbia University (New York), Sciences Po (Paris), Peking University (Beijing), the University of Cape Town (South Africa) and the National University of Singapore plus a number of ventures including double degrees and faculty and student exchanges. The School also increasingly operates as part of a network, enabling it to develop projects which it could not develop as a single institution. One example is the delivery of the Executive Public Policy Training programme in Beijing to government personnel in China. With Columbia, Sciences Po and the national University of Singapore, LSE is a member of the Global Public Policy Network.

Other forms of study

LSE's study abroad programme, the General Course, offers students at institutions overseas the opportunity to spend a year of fully integrated undergraduate study at the School. The School also contributes to the University of London International Programme, which offers diploma and degree programmes by distance learning in fields such as economics, management, finance and the social sciences to students worldwide. The School also has Summer Schools in London and in China (with Peking University), which provide an opportunity for students from around the world to take courses delivered by internationally renowned specialists in their fields.

Connecting with business

LSE Enterprise offers a gateway to a range of LSE expertise through a professional consultancy service that matches the skills and talents of LSE's academic consultants with the specific needs of clients. The School also offers a range of specialist teaching programmes for businesses and professionals, including customised executive education in collaboration with Duke Corporate Education Ltd. LSE also offers the TRIUM Global Executive MBA Programme jointly with NYU Stern School of Business and HEC School of Management (Paris) for senior executives from more than 30 countries.

Careers

The School is heavily targeted by employers and graduates from LSE are in great demand. Until very recently, large numbers of

LSE graduates entered the financial service industry. Finance remains an important employer despite current conditions. Other popular professions are law, government service or education; as well as consulting, the media, other professions or further academic study or research. The top five employers of LSE graduates are the UK government, Ernst & Young, PwC, KPMG and Deloitte.

LSE students' average earnings are significantly above the UK average, six months after graduation. In the most recent survey, LSE starting salaries were the highest of any UK university.

Alumni

The School is in contact with 92,000 alumni in 196 countries. The network covers 75 local alumni groups and contact networks in Africa, the Americas, Asia, Europe and the Middle East, as well as special interest groups in areas such as the environment, law, media and real estate. LSE alumni include Nobel Prize winners, past and present heads of state and leaders and opinion formers in fields such as academia, business, civil society, law, the media and politics.

Library

The Library is the largest in the world devoted exclusively to the social sciences. Founded in 1896, it is also known as the British Library of Political and Economic Science and is recognised internationally. It offers a superb environment and an excellent resource for students and researchers.

Events

LSE attracts some of the most influential figures in the world to give public lectures and speak at events. In recent years the School has welcomed Dmitry Medvedev, Kofi Annan, Tony Blair, Bill Clinton, Nelson Mandela, Mary Robinson, Javier Solana, George Soros, Steve Ballmer, Sebastian Piñera and many others. Seats are always available free of charge for LSE students. Alumni describe the public lectures programme as one of the key benefits of an LSE education.

Since 2004, LSE has also run an Asia Forum series: major overseas conferences as part of the School's strategy to enhance its long standing relationship with the rapidly developing Asian region. The fifth of these took place in Beijing in March 2010.

Miscellany

- LSE staff or alumni include 16 Nobel Prize winners, in economics, peace and literature.
- 34 past or present world leaders have studied or taught at LSE.
- LSE students borrow approximately five times the national average of books from their university library.

Report of the Chairman of the Council and Court of Governors



The year 2009-10 has seen continued improvement of quality at LSE and preparation for public funding constraints.

The School has maintained its position as one of the top universities in the UK and continues to feature at or near the top of the most recent versions of the national university rankings.

The LSE has used 2009-10 as an opportunity to think ahead to how it will respond to forthcoming cuts in public expenditure. LSE is less affected by reductions in HEFCE grants than most UK universities because of its lower proportion of UK students and low percentage (14 per cent) of HEFCE grants. Also relative to the rest of the HE sector, we have a very strong financial position. But the Council is clear that we must ensure a sustainable financial position in the long term, with even less reliance on HEFCE grants and more on our own earnings through innovation. This work I hope will come to fruition in the 2010-11 period.

We appreciate the importance for the UK of encouraging and developing the STEM (Science, Technology, Engineering and Mathematics) subjects but the diversion of funding to these areas remains a concern for a university like LSE where graduates are in much demand by employers as the evidence shows. We have argued the case in the public arena. LSE's



Learning for life

Studying social science means grappling with some of life's biggest questions. Is population growth a good thing? Does culture matter? How should we manage climate change? Every undergraduate at LSE will ponder these big issues (and many more like them) through the innovative and award-winning LSE100 course. By setting out some of the most fundamental questions of society and challenging students to think both more broadly and more deeply, the course ensures their education includes awareness of environmental, economic and social issues. From October 2011, LSE100 is compulsory for every undergraduate alongside their main programme of study. But it has already been running with huge success for a group of students who were so keen to volunteer for the pilot that they snapped up all the available places within hours. And LSE100's contribution to a sustainable world has already been recognised – it won the courses section in the annual Green Gown awards scheme which celebrates achievements in this field. Judges praised LSE for an 'exciting and bold' innovation which they said showed a willingness to lead. Dr Jonathan Leape, the course director of LSE100, said: 'The course builds on LSE's strengths to produce graduates who combine depth in their field with an interdisciplinary understanding of key environmental and social issues.'

graduates are but one of many examples of LSE's contribution to society, in the UK and abroad, which are provided in these Annual Accounts.

I was pleased to attend in November 2009, the award to LSE Health and Social Care of a Queen's Anniversary Prize for Higher and Further Education. This recognised their innovative international research, which has influenced government policy in the UK and beyond. At home our research work continues for example in dealing with the problems of child abuse, and in promoting in the schools of poor neighbourhoods an understanding of higher education and the social sciences. There are countless other examples of work for the public good in the core activities of the School.

All of us connected with LSE were overjoyed when Professor Christopher Pissarides was awarded the Nobel Prize for Economics on 11 October 2010. The award, which he shared with two colleagues in America, was for his ground-breaking work on the economics of unemployment – showing the frictions that make matches between jobs and job-seekers more complex than was previously understood. The prize is just reward for a lifetime of outstanding work – all of it done during his 38 years at LSE.

I would like to thank the LSE Council for its work over the past year. In addition to financial sustainability there have been significant discussions about issues such as the student experience, tuition fees, the quality of teaching and learning, preparations for the Research Excellence Framework, as well as about ethical questions including equality and diversity.

In particular I thank:

Professor Sarah Worthington (Pro-Director);
Professor Chris Brown (Vice Chairman of the Academic Board);
Professor George Philip (Vice Chairman of the Appointments Committee);
Aled Dilwyn Fisher (Students' Union General Secretary) and
Mr Wol Kolade (Independent Governor)
who has stepped down this year, after the maximum service.

I would like to welcome and introduce our new Council members:

Professor Stuart Corbridge (Pro-Director);
Professor David Marsden (Vice Chairman of the Academic Board);
Professor David Stevenson (Vice Chairman of the Appointments Committee);
Ms Charlotte Gerada (Students' Union General Secretary) and
Mr Richard Goeltz (Independent Governor).

I also pay tribute to the contributions of our many other members of the Court who contribute to debates on broad issues at our termly Court meetings.

The LSE Council has been active to ensure that its governance of the School is fit for the purpose of trusteeship. The triennial review of its effectiveness has strengthened the role of the Council through streamlining its business and improving the effectiveness of its committees.

I must also thank Howard Davies, the Director, and his team for the sound guidance they have given on key decisions and for the excellent services they have overseen. In this regard too, I would like to thank Adrian Hall and his team for the personal support they have given to me.

I am confident, as is the Council as governing body, that LSE is in a sound position during turbulent times and is progressing well towards its objectives.

Peter Sutherland
Chairman of Court and Council

Report of the Director of the School



Twelve months ago, in this space, I noted that the UK economy remained in recession and that the prospect for public expenditure support for Higher Education was rather poor. Since then, the UK has emerged from recession, albeit rather hesitantly and weakly. By contrast the public expenditure prospect has deteriorated. The new coalition government elected in May has resolved to cut the budget deficit more quickly and sharply than was planned by the outgoing Labour administration.

There are lively debates among economists both in LSE and elsewhere about the wisdom of this hair-shirt approach, but from the perspective of managing an institution in receipt of public funds the prospect is clear: government grants both for teaching and research are going to fall, and perhaps quite a long way. The details will not be known until some time after the Comprehensive Spending Review in the autumn, but there is a widespread expectation that the higher education budget will be cut by between a quarter and a third, and for individual institutions the outcome could be even worse.

Against that background the financial result reported here for the year 2009-10 is particularly welcome. Even though grant funding has already been cut in some areas, the School remains in healthy surplus. That is only partly because government funding as a share of our total income, at 14 per cent, is somewhat smaller than the sector average. In fact the surplus is largely attributable to the success of what one might call 'non-core' activities. Over the last few years the surpluses which arise on these activities have grown healthily. Especially important contributors are the Summer School, now with well over 5,000 students, LSE Enterprise, which markets consultancy and executive education services around the globe, the University of London International Programmes, and income from room hire and from letting our residence rooms outside the university terms. The income from these activities essentially subsidises the core functions of teaching degree programmes and research.

It is very important for the School that these activities should remain healthy. If they do, then we will be somewhat cushioned from the impact of government grant cuts, but cuts on the scale we fear will not be absorbed without some changes to the way in which we work. So we have established a group looking for economies and for increased revenue generation opportunities, to help us manage our way through. Initial results from that exercise are reasonably promising.

Overall, our firm intention is to maintain the quality of both teaching and research as far as possible, while living within a somewhat reduced financial envelope. That is a challenge which I believe we can meet.

At the same time, we can and must maintain progress towards our other long-term objectives, even though that progress might not be as rapid as we would ideally wish. Over the year we have continued to improve the quality of our estate. There is nothing quite as dramatic as the opening of the New Academic Building in November 2008 to report. Nonetheless, we have continued to invest in enhancing the quality of our existing building stock and faculty, administrative staff and students have, I believe, all noticed beneficial changes. The main entrance to the School has recently been reopened in a significantly enhanced form, for example. During the year we also completed the acquisition of Sardinia House, opposite the New Academic Building, which will provide much needed elbow room as we redevelop the centre of the campus over the next few years. Planning permission was granted for the New Student Centre at the end of September 2010 and agreement to purchase the Land Registry Building on 32 Lincoln's Inn Fields was reached in October 2010, after the year end.

On the research front, we have announced a new Middle East Centre, with significant funding from the Emirates Foundation in Abu Dhabi,

which will open for business in the 2010-11 academic year. We have also secured funding from a generous alumnus to endow a new chair in private equity in the Finance Department. Significant additional funding has been attracted into the global governance centre and we welcomed our new Chair in African Development, a key building block in our Africa initiative, initially supported by alumni through the Annual Fund. At the same time we have signed an institutional partnership agreement with the University of Capetown.

In spite of the continued difficult economic and financial background, our fundraising has moved ahead reasonably well. For the long term it is particularly good to note that the Annual Fund, which assembles small donations from alumni, has continued to grow year on year. The government's matched funding scheme has certainly helped. We remain a very long way from the performance of American universities who have been actively fundraising for much longer than we have, but the trends are all moving in the right direction. That is fortunate, as we will need a little help from our friends even more in the next few years than the last.

The most significant development on the teaching front this year has been the launch of a new course – LSE100: Understanding the Causes of Things. One conclusion from the Teaching Taskforce report two years ago was that some of our degree courses are quite narrow in their focus. That carries some significant advantages, in that LSE graduates in economics, or politics, have typically studied at greater depth than their equivalents with an economics major from a top US university. But it is arguable that they miss out on some of the intellectual broadening which universities should seek to offer. The new course attempts to fill that gap, and also to give our students the opportunity for more team working and class presentation.

The format of the course, which we have been piloting over the last year, is modular with segments on some of the big issues of the day, such as climate change (how do we know it is happening and what do we do about it) or financial crises (why do they happen and how should governments respond). The lectures are given by our most senior faculty, with class discussions to supplement the big lectures. From 2011-12 Academic Year all LSE undergraduates will be required to take LSE 100 on top of the workload in their chosen degree programme. We hope this will act as a unifying experience for LSE students in the future, and ensure that all of our graduates have good understanding of some of the biggest political, economic and social issues of the day.

Sustainability

Although immediate focus of the sector has shifted somewhat to financial sustainability, the School remains committed to leadership in environmental sustainability, both academically and in our own practice. This commitment has been recognised with 'LSE100' achieving the prestigious Green Gown Award for exceptional sustainability initiative in the 'Courses' category, and numerous other awards reported on elsewhere in these accounts.



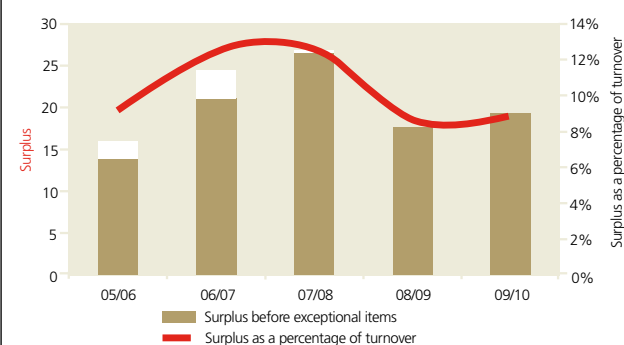
From the left: Professor Christopher Pissarides, winner of the Nobel Prize for Economics; Ambassador Richard Burt at LSE public lecture; Lecture in the New Academic Building

Financial overview

	2009-10 £m	2008-09 £m	% Change
Total income	220.9	202.9	+8.9%
Expenditure	(201.7)	(185.3)	+8.8%
Surplus	19.2	17.6	+9.1%
Surplus as a % of income	8.7%	8.7%	
General reserves	171.9	153.7	+11.8%
Endowment	72.6	57.4	+26.5%
Deferred grants	92.7	85.2	+8.8%
Net assets	337.2	296.3	+13.8%
School cash less borrowings	59.7	30.5	+95.7%

For the financial year ending 31 July 2010 the School achieved a surplus for reinvestment of £19.2m (2008-09 £17.6m) equivalent to 8.7 per cent of turnover (2008-09 8.7 per cent). This surplus includes £1.2m from the recovery of pre 1996 VAT and £1.0m of funding from the 'Matched Funding Scheme' for voluntary giving. Excluding these items the operating surplus for 2009-10 was £17.0m, 7.7 per cent of turnover.

Net assets and surplus as % of turnover



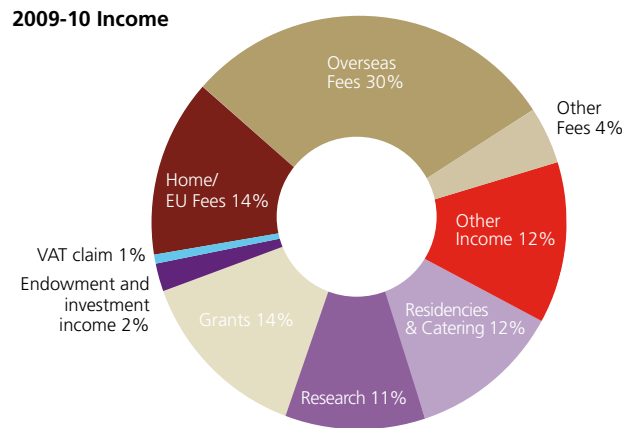
In 2003 the School adopted a target surplus range of 3 per cent to 4 per cent of turnover. This target recognised that a sustainable surplus is required to fund loan repayments, to support capital and infrastructure investment and to provide the School with the flexibility to invest in new academic initiatives. Strong student recruitment, growth in contribution from 'non core' activities and effective financial management have enabled consistently strong surpluses. In view of the prospective economic climate, we are fortunate to begin from such a sound base and I am pleased to report that we are planning to maintain the increased investment in teaching initiated by our Teaching Task Force review in 2008, and an ambitious capital investment plan. This is all aimed at ensuring the School can continue to attract the best faculty and students and provide them with an excellent environment in which to study and research. During 2011 our Finance Committee will review the School's financial strategy to assess whether the current 3 per cent to 4 per cent target remains sound in the changed economic environment we now face.

Income – total

	2009-10 £m	2008-09 £m	% Change
Funding Council Grants	30.6	29.5	+3.7%
Tuition fees	106.6	96.7	+10.2%
Research grants	23.9	20.3	+17.7%
Other income	53.8	49.2	+9.3%
Endowment and investment income	4.8	7.2	-33.3%
VAT claim	1.2	–	100%
Total income	220.9	202.9	+8.9%

Gross income grew in total by 8.9 per cent (2008-09, 6.8 per cent). Tuition fees increased by 10.2 per cent, and represent just under 50 per cent of our income. There was strong growth in research grants and contracts income (up by 17.7 per cent) and income from other sources grew by 9.3 per cent.

2009-10 Income



Endowment and investment income consists of two elements: income generated by endowments to meet expenditure on bursaries, research and other academic activities, and interest earned on School cash and term deposits. The latter fell sharply during 2009-10 despite higher cash balances throughout the year, because of significantly lower rates of interest.

Income: Funding Council Grants

At only 13.9 per cent of total income the School has a relatively low proportion of HEFCE (Higher Education Funding Council of England) grant funding compared with most UK higher education institutions. Nevertheless the £30.4m grant together with £0.2m from JISC (the Joint Information and Infrastructure Systems Committee) is an essential contribution to the financial viability of the School, as have been the various rounds of capital funding and HEIF.

Although Funding Council grants increased by 3.7 per cent compared to 2008-09, this includes funds received from the 'Matched Funding Scheme' for voluntary giving. The core block grant for teaching and research actually fell by 2 per cent in cash terms. This is particularly troubling in a year where pay, determined largely by a national settlement, and other costs rose substantially.

Report of the Director of the School cont...



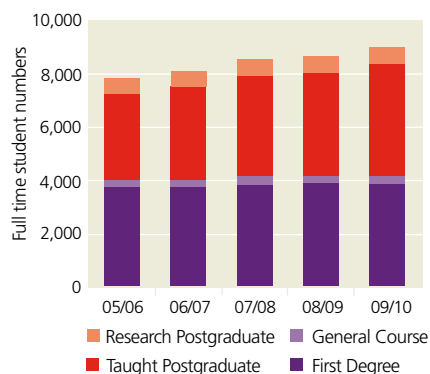
On the research side, the 2009-10 grant was the first to be allocated based on the 2008 Research Assessment Exercise (RAE). It is therefore very disappointing that despite the School's very strong performance which matched the 2001 RAE, the underlying QR allocation fell substantially and has only been supported temporarily for 2009-10 by £1.5m of non-recurrent moderation and transitional funding. LSE was, in overall terms, the second highest ranked multi-faculty university, yet saw its funding fall, while the national allocation rose.

On teaching grant, the continuing disparity between the amount we are paid to teach home and EU undergraduates (the government capped tuition fee plus the HEFCE teaching grant) and the cost of delivering the teaching remains a concern for the School. The School is awaiting with interest the outcome of the university funding reviews in the hope that representations highlighting the importance of adequate funding for the Social Sciences as well as the so-called STEM subjects are heeded.

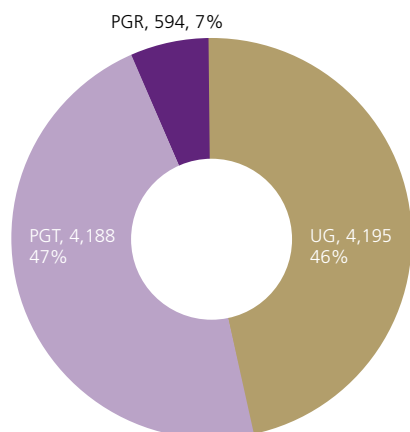
Students

The School had 8,977 full time students in 2009-10, an increase of 350 over the previous year. This is slightly ahead of the plan for expansion of the School to 9,000 full time students by 2012 and is a contributing factor to achieving a surplus above the 3-4 per cent

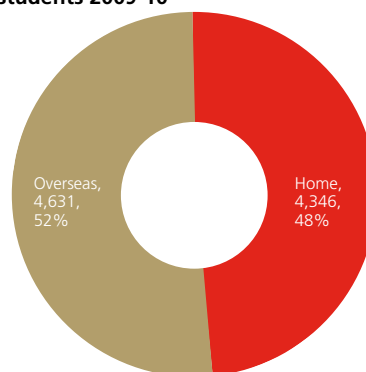
Full-time students 2005-06 – 2009-10



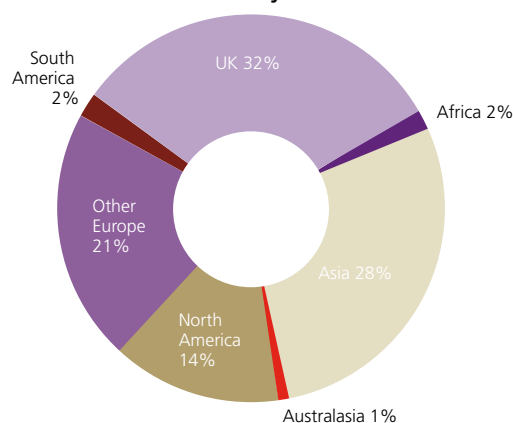
Full-time students 2009-10



Full-time students 2009-10



Full-time students in 2009-10 by continent



of turnover target. Overseas students (those from outside the United Kingdom or other European Union countries) account for roughly half the School's student population reflecting both the international flavour of the School's student body and our world-wide reputation.

Financial support for students

It is especially pleasing to report that over the past five years, through a combination of reinvestment of income and successful fundraising, the School has significantly increased the funds awarded in bursaries, scholarships and awards.

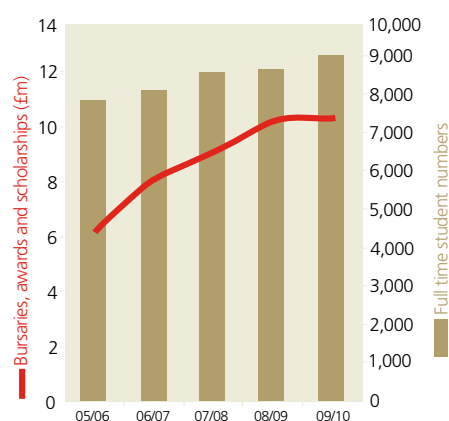
Income – Halls of Residence

The School operates 3,765 bed spaces across 11 halls of residence and University of London halls and we are able to offer the guarantee of a place to all first year undergraduate students. During vacation periods the halls operate partly on a commercial basis through a trading subsidiary, LSE Lets Limited, providing hotel accommodation for a wide range of customers. In 2009-10 this trading activity generated £5.4m of revenue. The surplus from this is used to subsidise student rents and to contribute to the School's overall surplus. Residences operate on a 'self financing' basis, with room rents set at a level which, after the subsidy from vacation business, is sufficient to cover operating costs, rents, capital charges and fund new investments.



From the left: Jens Stoltenberg, Prime Minister of Norway at LSE public lecture; John Watkins Plaza Café; The garden at Rosebery Hall of Residence

Financial support for students



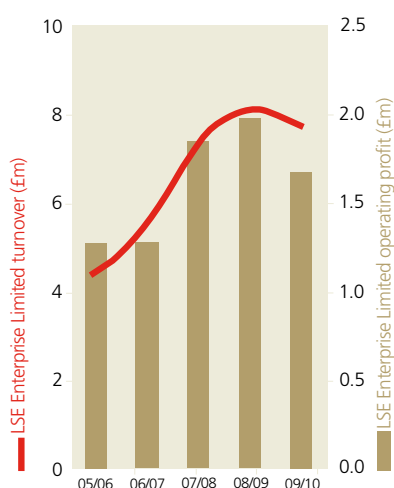
LSE Enterprise Limited and DUKE CE Limited

LSE Enterprise Ltd is the wholly owned subsidiary of the School that exists to develop the potential for consultancy, executive education and related activities that the School's faculty offers.

The company delivers its activities mainly through its two trading operations, LSE Executive Education and LSE Consulting, as well as through a joint venture with Duke Corporate Education Limited. Projects range from training civil servants from overseas countries with structured executive teaching, through to complex interdisciplinary commercial research projects applying academic methodologies to major policy and commercial questions. These activities connect the School's academics to senior industry figures by creating opportunities for their research to deliver insight and impact on government and industry alike.

In the face of a very challenging business environment during 2009-10 the company continued to deliver good revenue and profitability. Turnover was £7.8m, down 4.0 per cent on the previous

LSE Enterprise turnover and operating profit

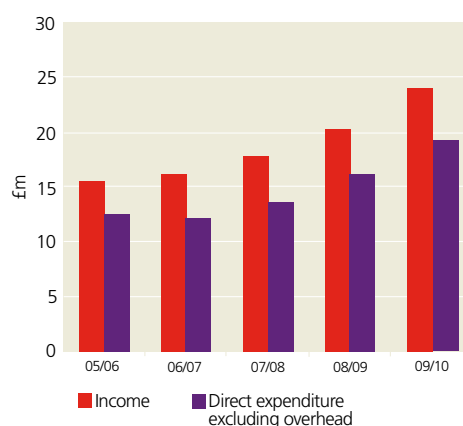


year, with 21.5 per cent profitability returning a gift aid payment to the School of £1.7m. The Gift Aid paid to the School supports teaching and research activities and the company also provides an important opportunity for faculty to supplement their income, a useful mechanism for attracting and retaining key staff. In 2009-10 this contributed £2.2m (2008-09 £1.8m) to LSE academics' income.

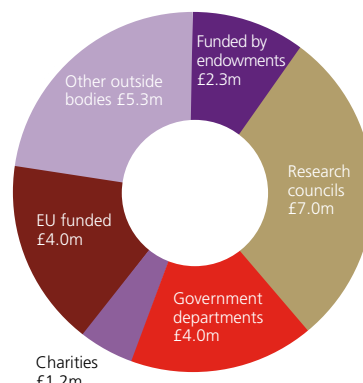
Research income

Income generated from research contracts, grants and endowments continues to grow, increasing 17.7 per cent to £23.9m in 2009-10. The UK Research Councils remain the largest funders of research, accounting for a third of the School's overall research income. Income from this source remains stable, with a marginal increase as the financial impact of full economic costing support by the Research Councils has now matured. During 2009-10 the DFID funded International Growth Centre (IGC) accelerated work on its research programme, accounting for a substantial increase of income from Government funding of 42 per cent. The start of several major European Union contracts under the Seventh Framework Programme, and the change in EC funding methodology to enable institutions to recover directly allocated costs, contributed significantly to the 50 per cent increase from this sponsor category. The trend seen over the last two years of gradual reduction in income from UK charitable organisations has continued this year with a further drop of 26 per cent. Evidence suggests that fewer bids are being submitted to the

Research grants and contracts 2005-06 – 2009-10



2009-10 research funding source



Report of the Director of the School cont...

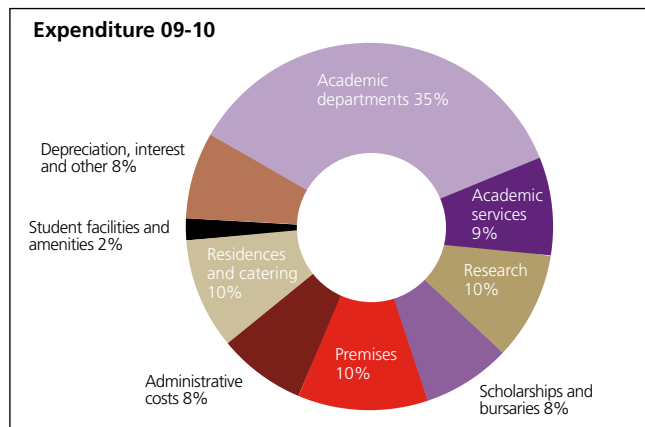


sector than hitherto, although the reason for this trend is as yet unclear. Research funded by other external sources continued to grow, with an increase of 15 per cent. Notable funding during the year came from the Alfred Herrhausen Society's support for the LSE Cities programme, Munich Re and the Reserve Bank of India. The School's strategy remains to compete successfully for high quality peer reviewed research. Where it is possible and appropriate to our academic aims, we also participate in commercial non-peer reviewed research, though undertaking research of low academic benefit purely for income generation is not a strategic aim.

Expenditure – total

	2009-10 £m	2008-09 £m	% Change
Staff costs	117.9	107.7	+9.5%
Other operating expenses	75.2	70.0	+7.4%
Depreciation	5.4	5.2	+3.8%
Interest payable	3.2	2.4	+33.3%
Total expenditure	201.7	185.3	+8.9%

Expenditure 09-10



Total expenditure grew by 8.9 per cent (2008-09, 13.3 per cent) with pay costs increasing by 9.4 per cent, of which 1.2 per cent was attributable to the pay award from August 2009 and the full year effect of the October 2008 award, 2.0 per cent to the increase in employer contributions to USS, 2.4 per cent to promotions, increments, honoraria and additional work and 5.3 per cent to an overall increase of 168 full time equivalent staff and changes to graduate teaching assistant contracts. These increases were partly offset by a 0.5 per cent saving from 'Pensions Plus', a salary sacrifice based pension contribution scheme that was introduced in July 2009. Other operating expenditure grew by 7.4 per cent (2008-09, 12.4 per cent).

Balance sheet and liquidity

During 2009-10 the School's net assets grew by 13.8 per cent (2008-09, 9.4 per cent) to £336.9m.

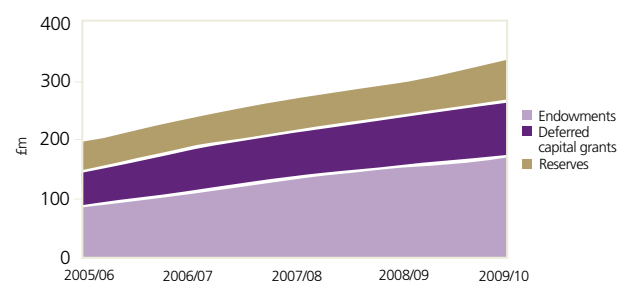
Cash at bank and term deposits rose to £93.0m during 2009-10 increasing the School's net cash position (cash plus cash on deposit less borrowings) to £59.7m. The School has ambitious capital investment plans and holds a £75.0m amortising loan facility of which £33.3m is currently drawn. The

School's Finance Committee reviews borrowing capacity on a regular basis and considers it adequate to accommodate our current medium term plans.

Endowments and fundraising

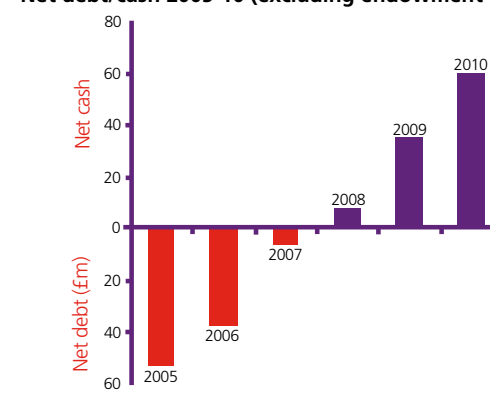
During 2009-10 the School received £15.1m (2008-09, £8.1m) in endowments from a combination of new donations and receipts from existing pledges. Despite the increasingly uncertain economic outlook,

Net assets 2005-10



fundraising has been particularly successful with gifts to create a Middle East Research Centre and to establish a chair in Private Equity totaling £7.5m, and a further eight gifts in excess of £200,000. As a consequence the endowment grew by 26.6 per cent to £72.6m, accelerating a trend established in recent years. As already mentioned, the School received £1.0m from the HEFCE Matched Funding Scheme which is accounted for on a receivables basis in the Income and Expenditure account and

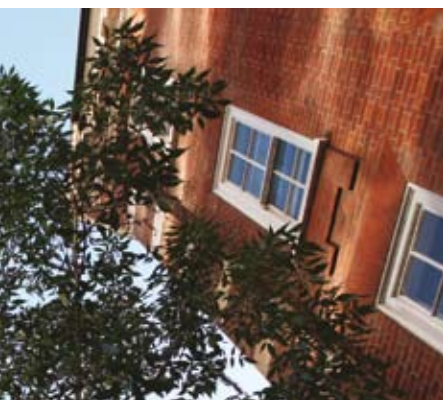
Net debt/cash 2005-10 (excluding endowment cash)



transferred to Endowments. Under this scheme the School is eligible to receive a maximum of £2.8m over three years and £1.0m paid in the first year at a rate of £1 for every £3 raised. The School expects to receive the balance of the £2.8m allocation in 2010-11 and 2011-12.

Capital expenditure

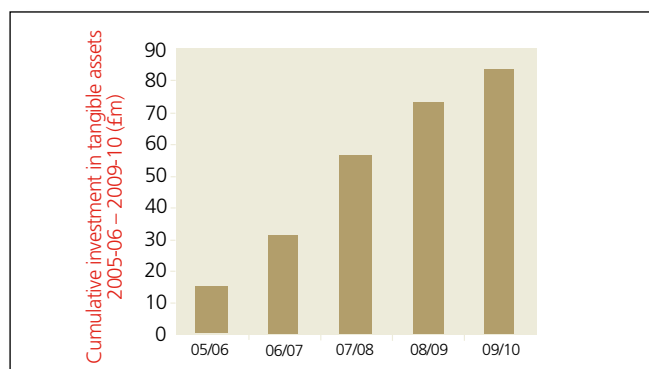
Over the last five years the School has invested £84.5m in fixed asset additions. Just before the start of 2009-10 the £8.9m acquisition of Sardinia House was agreed and £10.0m was spent during 2009-10 on capital projects. The largest elements of this were investment to refurbish and enhance existing School buildings and the design work for the New Student Centre planned for the St Philips site.



From the left: LSE Literary Festival 2010; Trees on the John Watkins Plaza; LSE Library

	2009-10 £m
Refurbishment of space	5.0
New student centre development costs during 2009-10	2.6
Catering outlets	0.9
Additional faculty accommodation	0.3
Improvements to halls of residences	0.8
Other additions	0.4
Total expenditure	10.0

A scheme to improve environmental sustainability and upgrade the windows at Rosebery Hall was completed and the three additional flats, suitable for relocating or visiting academics are being created in the heart of the Houghton Street campus. This scheme brings the total number of flats available for academics to 47.



The New Students' Centre, to be built on the current St Philips site, will house the Students' Union, including a major venue space, catering outlets, exercise and fitness facilities, space for student societies and a media centre, along with School services such as residences, multi-faith centre and the LSE Careers Service. Planning consent was granted in September 2010 for the project that is planned to cost £38.0m and open in 2013. Unfortunately, the forthcoming VAT increase to 20 per cent has added £0.7m to the development cost. In October 2010 the School agreed to purchase the former Land Registry Building at 32 Lincoln's Inn Fields for £37.5m. This building is ideally located close to the existing campus and will provide over 80,000 square feet of teaching and academic space. As it is in excellent condition it should be largely ready for occupancy in Michaelmas Term 2011. Our strong financial performance in recent years has allowed us to fund this purchase without additional borrowing.

Principal risks and uncertainties

The School's Strategic Plan addresses the key risks threatening the achievement of its strategic objectives over the next five years. Protecting and developing the School's reputation is vital. The maintenance of the highest standards for recruitment of both staff and students remains central. With a high proportion of income from student fees, the global economic situation and issues relating to student visas and immigration are significant risks. They are mitigated by the geographic diversity of the School's student intake, the current high number of applications per place, provision for potential under recruitment in our financial planning, and a low debt gearing. The School has responded successfully to the uncertainties associated with Home Office visa procedures and will continue to monitor developments in this area very closely. Students from the United

States represent a significant minority of our overseas students and so I am pleased to say that the School was able to play a sector wide role in expediting changes in US government backed student loan arrangements. These changes have seen a transition to the direct payment to institutions of the loans critical for supporting US students study at the School.

Staff at the School are also recruited from amongst the best in the world, and improving student satisfaction is central to the School's five year strategic plan and actions are in place to address the risk that arises from low student satisfaction with teaching. A process of five year planning and detailed annual monitoring operates to ensure that teaching programmes are relevant and sophisticated. This also ensures that courses with lower student demand are reviewed and updated or replaced. The quality of teaching is primarily determined by the quality of the faculty and the School continues to seek out and attract world class academics with competitive salaries, promotion prospects and sabbatical leave entitlement. It is not yet clear how the government's implementation of immigration controls and increasing tax rates will affect international recruitment and retention in the future. Financial planning is undertaken over a ten year time horizon to reflect the long term nature of both staff development and capital investment planning. The School's Finance Committee reviews these plans and risks at least three times a year so that appropriate actions can be taken to address risks to financial objectives. This process is supported by an annual governing body awayday that focuses on strategic issues and a small working group of Finance Committee that meets each term to consider in more detail particular themes identified by Finance Committee.

The staff survey carried out in 2009 indicated a high level of satisfaction with the School as a place to work. A Staff Consultative Council is operating and building on the existing sound base of good staff relations and improving employee engagement. The School has developed an integrated and comprehensive approach to the planning for and coordination of responses to major adverse or unforeseen events. Work in this area has seen the successful implementation of an outsourced off-site data storage, backup and recovery facility, removal of single points of failure from our on-site data network, comprehensive plans to deal with the implications of pandemics and the establishment of an offsite emergency management centre. In addition, all major administrative and service areas have developed contingency plans consistent with HEFCE guidance.

Conclusion

Against the financial background I have described, I would be surprised if any university head in the UK will be inclined this year to end his or her annual report on an upbeat note. Managing universities in a cold climate will be difficult. It would be foolhardy to suggest that LSE could be insulated from these financial pressures. But, as I said last year, I am confident that we can manage our way through as long as the School and all its supporters pull together.

Howard Davies
Director

Report of the Directors



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 consultancy, conference and events, 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 of the School, on pages 4-9 of these accounts.

Subsidiary companies

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

Key performance indicators

	Notes	2009-10	2008-09
% Ratio of surplus to total income	1	8.7%	8.7%
% Ratio of HEFCE grants to total income	2	13.9%	14.6%
Days ratio of general funds to total expenditure	3	311 days	304 days
% Ratio of long-term liabilities to total general funds	4	19.3%	21.7%

1) % Ratio of surplus to total income = surplus as a percentage of total income. The School has established a target range of 3% to 4%, necessary to fund infrastructure investment.

2) % Ratio of HEFCE grants to total income = HEFCE grant income as a percentage of total income. The School aims to develop 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 days X general reserve/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 = long-term liabilities/general reserve. The aim is to gradually reduce this ratio over a number of years.

Principal risks and uncertainties facing the school

Please see page 9

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 £20m that can be placed with any one bank group.

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 42.

Employment

The School promotes equality of opportunity for staff from all social, cultural and economic backgrounds and to ensure freedom from discrimination on the basis of disability, gender, race, age, religion or belief, and sexual orientation.

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

Directors

The Directors of the School are shown at page 48.

Auditors

The School's current auditors are Grant Thornton UK LLP. A resolution to reappoint Grant Thornton UK LLP as auditors of the School will be proposed at the forthcoming Court of Governors Meeting.

Disclosure of information to auditors

At the date of making this report each of the company's directors, as set out on page 46, 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 23 November 2010.

Howard Davies
Director

LSE and public benefit



From the left: Takis Arapoglou, CEO of the National Bank of Greece speaking at LSE public lecture; Year 11 students Summer School visit

The School is a place where the world's best scholars can and do pursue academic knowledge for its own sake or as preparation for academic careers. And the School contributes to the advancement of education, preservation of academic heritage in the library archives, and to the advancement of social science. But it is and does far more than that, making a very significant contribution to public benefit through its services to society.



The Charities Act 2006 and Charity Commission Guidance

LSE is both a company and a charity. The Charities Act 2006 places an obligation on charities to demonstrate explicitly how they provide public benefit.

The Charities Commission guidance on public benefit requires, *inter alia*, that there must be clearly identifiable benefits related to the aims of the charity; that the benefits must be to the public, or to a section of the public; that where the benefit is to a section of the public, the opportunity to benefit must not be unreasonably restricted by geographical or other restrictions or by ability to pay fees; that people in poverty must not be excluded from the opportunity to benefit.

The LSE self-evidently contributes to the charitable purpose of advancement of education, but also makes a significant contribution, via its research, teaching and other activities to eight of the 11 other specific categories of charitable purpose set out in the Charities Act 2006.

- The prevention or relief of poverty
- The advancement of education
- The advancement of health or the saving of lives
- The advancement of citizenship or community development
- The advancement of the arts, culture, heritage or science
- The advancement of amateur sport
- The advancement of human rights, conflict resolution or reconciliation or The promotion of religious or racial harmony or equality and diversity
- The advancement of environmental protection or improvement
- The relief of those in need, by reason of youth, age, ill-health, disability, financial hardship or other disadvantage

The School has an exceptional Disability and Well-Being office that leads the provision of support to students with disabilities to ensure that they can benefit from study at LSE.

The School is particularly aware of the need to ensure that people from all backgrounds can benefit from its activities, that access to the benefits is not unreasonably restricted by fees charged and that people in poverty are not excluded from the opportunity to benefit. Some activities of the School – most notably degree courses and research – are economically dependent on fee income. The School invested £10.4m in scholarships and financial support in 2009-10 to enable people who could not otherwise afford to undertake courses to attend LSE.

This report cannot cover every activity through which LSE provides service to society, and can only communicate a small part of those activities and their contribution, and their reach and impact far beyond our students.

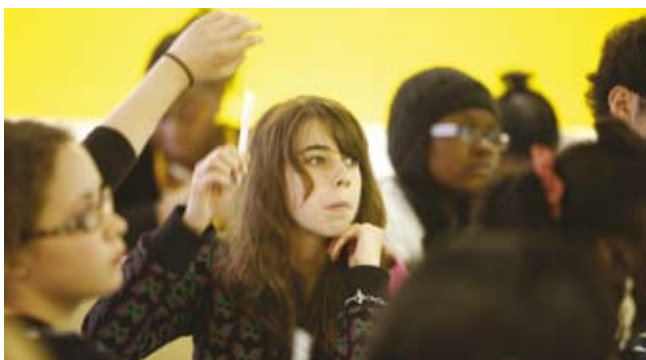
LSE and services to society

The Higher Education Funding Council for England (HEFCE) has published a 2010 report – *Service to Society* – identifying six areas where universities provide services to society.

- Developing people to make a contribution to society
- Innovating, informing and inspiring: opening up university knowledge, expertise and resources
- Engaging communities and working in partnership
- Informing public policy and the professions
- Stimulating local economic and social development
- Building international connections

LSE is a leading contributor in all of these areas, and many of our activities contribute in more than one area. 'Widening Participation' illustrates the extensive engagement with mainly local communities: 'International Growth Centre' illustrates the global reach and impact of LSE's work.

LSE and Public Benefit cont...



Widening participation

Our widening participation programme contributes in the first three of these six areas. It comprises an extensive range of activities working with schools in the community with the active participation of LSE Student Ambassadors, funded with the generous support of private donors, including the Goldman Sachs Foundation, the LSE Centennial Fund, the Sutton Trust and Robert Emmanuel Hodges.

- LSE Connect is a project in partnership with teachers and senior staff in London state schools, aiming to raise awareness of higher education generally, to raise aspirations and motivate, and to raise attainment. The LSE student tutoring scheme has been running since 1988 and in 2009-10 over 145 LSE students volunteered in 21 local primary and secondary schools across seven London boroughs.
- 'Moving On' is a programme accommodating up to 30 year six pupils at a time from London state schools to support transition to secondary school and give a first taste of university life.
- ACE (Aiming for a College Education) and ACE high days are for year 9, 10 and 11 pupils in London state schools to help

people gain insight into the opportunities of university education.

- 'Black to the Future' is a conference for years 7 to 11 African-Caribbean secondary school pupils and their parents and carers.
- The LSE mentoring scheme for years 9 to 13 pupils aims to help them improve their performance in key stage assessments and at GCSE and A level.
- The year 11 summer school is a one week course for 120 pupils from families with no history of higher education to develop their team-working, problem solving and presentation skills, develop their knowledge and increase their chance of success in higher education.
- Pathways to Law is a programme run with University College London to provide 125 year 12 and year 13 pupils from state schools within 50 miles of London with advice, guidance and experience to succeed in a career in law.
- LSE Choice provides a one week summer school and 16 two hour Saturday sessions to 180 year 12 and year 13 students from non-traditional backgrounds to give them the tools they need to improve their chance of applying successfully to LSE or other Russell Group institutions.
- The LSE Politics Conference is for 100 year 12 students from London state schools.
- LSE is one of 23 London institutions taking part in the London Taster Course programme giving year 12 pupils the opportunity to experience life as university students.
- LSE runs an 'advising the advisers' conference to provide school teachers and higher education advisers guidance on how best to support their students through the university admissions process.
- LSE also offers student shadowing for year 12 and 13 students, 'email a student/alum', open days, public lectures and the LSE Language Centre works with schools on a range of projects.

International Growth Centre (IGC)

Perhaps more than any other of LSE's activities, the IGC contributes in all six areas identified in the HEFCE report. IGC was established in 2008-09 and promotes sustainable growth in developing countries by providing demand-led policy advice based on frontier research. The IGC is directed and organised from hubs at the LSE and Oxford and comprises country offices across the developing world. The IGC was initiated and funded by UKaid from DFID. The IGC has active country programs in Bangladesh, Ethiopia, Ghana, India (Bihar), Pakistan, Sierra Leone, Tanzania, Mozambique and Rwanda, and is in talks with several other governments in Africa and South Asia. For each partner country, the IGC supports a team of resident and visiting economists who respond to specific policy demands from countries on issues of economic growth. This covers long-term research as well as rapid responses to pressing policy issues. Examples of country work include research on money demand, growth and inequality in Tanzania and industrial mapping work in Ethiopia. IGC country teams, often based in the offices of governments or think tanks, also work closely with local researchers, the private sector, civil society organisations and stakeholders to ensure our work meets the needs of the country.



LSE and Public Benefit cont...



From the left: LSE Policy Briefing; Peking University, an LSE academic partner

Developing people to make a contribution to society

The School's academic departments, listed on page 49, offer undergraduate and postgraduate courses across a broad range of social science disciplines, which build students' knowledge and also prepare them for their life after university. The School's graduates go on in a broad range of careers to contribute to society. Financial services, not always universally recognised for its contribution to society, is the destination for 29 per cent of LSE graduates, but more – 34 per cent – go on to public service in government, education, research or charities. (2008-09 graduate destinations).

LSE100 is an innovative new course that introduces all first year undergraduates to the fundamental elements of thinking like a social scientist, by exploring some of the great issues of our time from the perspectives of different disciplines. Focusing on questions such as 'How should we manage climate change?', 'Does culture matter?' and 'Why are great events so difficult to predict?', it brings students squarely into the LSE tradition of contributing to public debate. LSE100 also helps students develop the critical skills they need for success at the LSE and afterwards. The course builds on the diversity of LSE, enabling students to learn while collaborating and debating with classmates from other disciplines and cultural backgrounds.

Outside of the formal academic environment, LSE students' development continues in volunteering roles, as 'eco-champions' driving environmental performance improvement, as fund-raisers in RAG week, through participation in over 160 student societies, through participation in School committees, through leadership activities in the Students' Union, in the Language Centre, on the sports field, and more. For some, the friendships developed in the halls of residence will develop into lifelong international connections.

Innovating, informing and inspiring: opening up university knowledge, expertise and resources

In addition to the 9,000 students studying full time at LSE, over 5,000 students each year benefit from LSE Summer School courses in London and China, and 15,000 students on the University of London International Programme, while not studying for LSE degrees, are using course content developed at LSE. As are students at universities worldwide using texts written by LSE staff based on their academic research.

Many of the activities and resources of the School are available without charge to members of the public. The LSE has the largest public events programme of any university in the UK and over 66,000 people attended over 280 free public lectures and events at the School in 2009-10.

The LSE website contains materials in text form, and audio and video resources for public lectures. Downloads of 'podcasts' of LSE lectures and events have grown from 0.1 million in 2006-07 to 5.2 million in 2009-10.

The School's library, the British Library of Political and Economic Science, is available to other academic institutions and to members of the public.

LSE Research Online is a publicly accessible collection of research produced by LSE academics: articles, working papers, book chapters, conference papers and more.

LSE Experts is an A to Z on-line resource giving access to information about LSE people's expertise from Professor Emeritus Peter Abell in the Department of Management to Dr Radoslaw Zubek in the European Institute.

LSE Enterprise Limited engages LSE academics in consultancy projects for public bodies and companies internationally, delivers executive education and through its holding in Duke Corporate Education, customised executive education for many of the world's leading companies

Engaging communities and working in partnership

The New Academic Building hosted the second annual Literary Festival in 2010, and there is an active programme of free public art exhibitions, music performances and other cultural events at the School.

LSE Careers hosts a Volunteer Centre that finds opportunities for students to work with local charities and not for profit organisations. Volunteering 4 All is the LSE Careers and Staff Development Unit employer supported staff volunteering scheme, operating with the aim of encouraging more staff to use their skills – and to learn new ones – for the benefit of the community and themselves.

The School is signed up to the London Living Wage and the Students Union hosted London Citizens campaign in 2010, aimed at ensuring that all London workers receive a living wage.

The School participated in the 2010 'Universities that Count' ESR (Environmental and Social Responsibility) index and was recognised as one of the biggest movers. Its contributions and achievements in environmental sustainability are detailed on page 42 of this Annual Report and Accounts.

Informing public policy and the professions

Much of LSE's research is aimed at informing public policy and the professions. LSE has a range of research projects, institutes and centres: the major centres are listed on page 49.

Many LSE academics either advise policy makers or participate in relevant policy making bodies themselves.

The School for Social Care Research (NIHR SSCR) at LSE, funded by the National Institute for Health Research (NIHR), formally began work in May 2009. With a budget of £15 million over five years, the SSCR is a partnership between six leading academic centres of social care research in England. Social care affects the lives of about 1.8 million people and their families in England; the new national research school will conduct and commission studies that can improve care and support, and so improve individual lives.

Government ministers, policy makers and academics from twelve countries in Africa and South Asia joined leading Western experts to debate the latest ideas for stimulating economic growth in developing countries at a conference hosted by LSE in September 2010. Professor Tim Besley (LSE), Professor Paul Collier (Oxford University) and Professor Ricardo Hausmann (Harvard) were among the distinguished experts joining senior government ministers and advisors from Bangladesh, Ethiopia, Ghana, India, Mozambique, Rwanda, Sierra Leone, Tanzania, Uganda, Mauritius, Nigeria and Pakistan. The discussions, on topics such as the contribution of mobile phones to development, reform of educational systems, strengthening tax capacity in developing countries and China's controversial role in Africa, were part of the International Growth Centre's (IGC) Growth Week at LSE in September 2010.

In 2010 LSE faculty ran an innovative policy briefing induction session for newly elected Members of Parliament.

LSE and Public Benefit cont...



LSE Enterprise

In October 2010, the *Financial Times* reported on how one of LSE Enterprise's unique courses connects academics, Vietnamese public policy and UK companies.

The Enterprise LSE 'Economics for Foreign Policy' programme was specified by the Vietnam Ministry of Foreign Affairs (Mofa) and financed by the United Nations Development Programme. The programme is aimed at mid-career officials from the ministries of finance and planning and investment, the central bank and the national assembly, among others, but also included high-flying participants as young as 25.

For Trinh Thi Tuyet Mai, one of the 15 women on the programme, the course was perfect training for the skills she needs in her job in the multilateral trade policy department, where her responsibilities include handling environmental issues. 'I go to Geneva five times a year on the Doha negotiations (of the World Trade Organisation) and for UN meetings,' she says. 'Economic diplomacy is highly relevant.'

Although Vietnam only joined the WTO in 2007, many of the course participants have lived, worked or studied overseas. Tran Quoc Khanh, director of the economic diplomacy division at Mofa, was a student at Ena in Paris, the public administration school and alma mater of many of France's presidents and prime ministers, and also worked in Geneva. He says that the UK company visits that follow the six-day LSE programme will be particularly useful.

The strength of links with the professions at LSE is illustrated by some highlights from the Department of Accounting.

Professor Richard Macve, recipient of the British accounting Association 2010 Distinguished Academic Award is the academic advisor to the Institute of Chartered Accountants of England and Wales' Centre for Business Performance and its Research Advisory Board. He was invited as Distinguished Visiting Professor at Osaka City University in April 2010.

Professor Wim Van der Stede has been named the Chartered Institute of Management Accountants' CIMA Professor. Through his involvement in research, public engagements, roundtables with FTSE 350 directors and other activities CIMA aims to develop and promote management accounting research, to build relationships with stakeholders, and to raise the profile of the profession and bridge theory and practice.

Michael Bromwich, CIMA Professor of Accounting and Financial Management Emeritus, was awarded CIMA's Gold Medal in June 2009 'for outstanding service to CIMA, providing direction to the entire profession and generating thinking which has developed the science of management accounting.'

The professional contribution extends beyond academics. The 'Introduction to Purchasing Guide' produced by our Purchasing Manager has been requested by over 80 other universities in the UK, and also by universities from the West Indies and South Africa. It has been made available as an example of good practice to all Welsh Universities, and to HM Treasury.

Philanthropy in action: Middle East Centre

In May 2010 LSE received £9.2 million in support from the United Arab Emirates' (UAE) Emirates Foundation for Philanthropy and The Aman Trust to establish a new Middle East Centre at LSE. The Centre, which has been operational since October 2010, brings together multidisciplinary research focusing on history, political economy, society, environment, law and international relations in the modern Middle East. Its work places great emphasis on active and systematic collaboration with Middle Eastern universities, scholars, civil society, policy makers, and speaks to a global audience about the region's strengths and challenges. Inaugural director, Professor Fawaz Gerges, is working alongside other prominent LSE scholars to engage intellectuals and experienced practitioners to analyse and report on the region's economics, politics, and culture. One of the Centre's overriding aims is to train a new generation of specialists drawn from within the region and from the rest of the world, enabling them to provide informed and balanced analysis of the nations of the Middle East, and the region's place in the international community. LSE could not have established the Centre without the initial support received from The Emirates Foundation for Philanthropy and The Aman Trust. The former offers financial and technical support to projects that enrich the lives of people in the UAE, and the latter, which is headed by Arif Naqvi (BSc Economics 1982) whose family endowed the Trust, is a philanthropic organisation operating throughout the Middle East and South Asia.

Stimulating local economic and social development

The School's global reach is exemplified by the International Growth Centre, but the School is also an important constituent in the boroughs of Camden, Islington, Southwark and Westminster, London and the United Kingdom.

LSE London was established in 1988 as a centre of research excellence on the economic and social issues of the London region, as well as the problems and possibilities of other urban and metropolitan regions. Today the centre has a strong international reputation particularly in the fields of labour markets, social and demographic change, housing, finance and governance, and is the leading academic centre for analyses of city-wide developments in London. LSE London and the Government Office for London jointly hosted an event 'Transforming London's Public Services' to explore delivering more and better public services, without increasing burdens on the taxpayer these issues in March 2010.

Two of LSE's halls of residence have received awards for their contribution to tourism: Passfield Hall (pictured above) the 2008 Silver Award in Visit London's Best Budget Hotel and Northumberland House the 2010 Green Tourism for London Silver Award.

Building international connections

The LSE is the most international university in the United Kingdom, and the second most international worldwide,* with staff and students from across the world, and a teaching curriculum and research that covers issues from an international perspective.

*(THE World University Rankings, September 2010.)



From left to right:
Northumberland House;
LSE Asia Forum; Atrium in
the NAB

International Alumni Groups					Special Interest Groups
Argentina	Cyprus	Indonesia	Mauritius	South Africa	Banking and Finance
Australia	Czech Republic	Ireland	Netherlands	Spain	Civil Service, Government and Public Policy
Austria	Finland	Israel	New Zealand	Sri Lanka	Crossfire
Bangladesh	France	Italy	Nigeria	Sweden	Global Real Estate Group
Belgium	Germany	Japan	Norway	Switzerland	Information Systems Alumni (LISA)
Brazil	Georgia	Jordan	Pakistan	Thailand	Joint School Society
Bulgaria	Greece	Kazakhstan	Poland	Turkey	Lawyers' Alumni Group
Canada	Hong Kong	Kenya	Russia	UAE	Media Group
Chile	Hungary	Lebanon	Serbia	UK – Midlands	
China	India	Malaysia	Singapore	USA	

The School has a number of double degree programmes run in conjunction with overseas institutions. The School has, in 2010, added the University of Cape Town to the select group of universities with which it maintains institutional partnerships. A new chair in African development has been created. A Middle East Research Centre is being established, with the support of generous donations.

The School hosts many visiting academics from overseas, and many LSE academics also spend time as visiting academics at overseas institutions. For example, during the year the Department of Accounting hosted academic visitors from the USA, France, Italy, Australia, Holland, Switzerland, Sweden, Finland and Germany.

The 5th LSE Asia Forum in Beijing in March 2010 hosted LSE's first overseas presentation ceremony for new graduates. The Forum, with the support of the China Institute of International Studies, addressed a wide range of issues of deep interest to policymakers and wider society, under a general theme relating to the recent challenges and changes that have affected the global economy. A key focus of the Forum was on the role of China in tackling the recent challenges, and what lessons can be learnt for the future.

The School now has nearly 100,000 addressable Alumni with a wide range of national and special interest alumni groups.

Professor Thandika Mkandawire, previously Director of the United Nations Research Institute for Social Development, has been appointed to the new Chair in African Development in the School's Department of International Development.

The appointment follows a powerful speech made by Nelson Mandela at LSE in 2000, in which he recognised the connections between LSE and Africa and pointed to the potential for education to help deliver a renaissance on the continent. The new post will play an integral role in LSE's African Initiative, a programme designed not only to reinvigorate African research at LSE but to put Africa at the centre of the social sciences and in the global public spotlight. It is expected the new post will open the way for more Africa-based scholars to bring their

Planning a future in the present tense

Sound financial planning means paying close attention to both the present and the future. It also means understanding the links between them and recognising that decisions taken now may have a profound effect on what happens in 10, 20 or even 40 years time. Nowhere is this more clear than in the area of pensions. Like any responsible organisation, LSE wants to ensure that its employees can enjoy a financially-secure retirement once they finish working. Yet global pressures have made this harder than ever to deliver. The USS pensions scheme to which LSE belongs, is proposing changes to ensure the scheme is sustainable. Therefore it is more vital than ever that LSE husbands its resources wisely and sustainably so that it continues to fund the employer's contribution to staff pensions. This commitment shapes many of the decisions about current spending taken every day about how to deliver excellent teaching and research at an affordable cost, maintain and enhance the estate, recruit staff on competitive salaries and make provision for the unforeseen. Small wonder then, that at LSE the horizons of financial planning are so wide. Pensions aside, the School carries out financial projections for a full 10 years ahead to give it the best possible basis for planning the future – for example of student numbers. And one of the School's strategic targets is that it should generate a surplus of between three and four per cent over a five-year period, to ensure that the bank account still has something in it even when times are tight.

expertise to LSE to help broaden and sharpen its research into the region. LSE is also developing plans to take summer schools to African students in partnership with other universities, extend scholarships for African students and to develop more research projects which are a partnership between LSE and African scholars.

LSE and Public Benefit cont...

Funding of public benefit

The public benefits are funded from four main sources: government funding for teaching and research, donations from generous individuals and charitable foundations, funds generated by LSE Enterprise's and LSE Lets' activities which are gift aided to the School, and other activities within the School which generate a surplus of income over expenditure. The charitable work of the School is also supported by governors who give their time, many academics who donate their external public event fees to support research at the School, and staff and students who give their time to voluntary activities.

The current funding debate, ahead of analysing the outcomes of 2010 Comprehensive Spending Review and Lord Browne's review of university funding, is dominated by speculation about the size and speed of future reductions in public sector spending, concerns about prospective fee increases and special interest pleading by virtually every group in receipt of funding. Higher education is not immune from special interest pleading, but has also, perhaps, not communicated the economic contribution and the broader service to society that justify public investment in education. While there is a good reason for pessimism on the potential reduction in public funding, we should remain optimistic that the committed staff, students, alumni, governors and other members of the LSE community will continue to contribute their services to society and to support the School to deliver its public benefit charitable objectives even in difficult financial times.



Meeting the demand for knowledge while reducing the demand for resources

With more than four million items (including books, journals and pamphlets) on 30 miles of shelving, and well over 5,000 visitors every day, nowhere at LSE bustles quite like the Library. That kind of activity, with its associated demand for paper, power, IT equipment and water among other things, could easily put a strain on resources. Yet the Library's use of all those commodities is actually much less than one might imagine – thanks mainly to a concerted and imaginative effort to make its operation more sustainable. Out of date books are sold to raise money for charity, library guides and other documents are published electronically to save paper and rechargeable batteries are used wherever possible. The Library also introduced a free, reusable Bag for Life (pictured) given to students, which not only cuts down the use of carrier bags but is even printed with encouraging messages to sustain morale during late-night study sessions. These initiatives, and many more, have helped the Library win two awards under the Green Impact scheme. But work goes on, under the leadership of a joint Library and ITS environmental group, to help ensure that learning, research and sustainability go hand in hand.



The 'supporters' who are a vital part of the team

While it's world-class teaching and research which rightly gets most attention at LSE, academic success wouldn't be possible without the help of the School's support staff. From cleaners and caterers to administrators and technicians, these colleagues (adding up to 1,200 full-time staff) are essential to LSE's vitality and professionalism. To sustain this effort, it's important for LSE to try and hire the best, reward their skills and listen to their views. No employer does this perfectly but we hope we do it better than most. For example, LSE was an early adopter of the London living wage – raising pay levels at the lowest levels to reflect the economic reality of working in an expensive city. Another measure of success is job stability – support staff at LSE stay in post for well over five years on average. To help give all staff a voice the School has established a Staff Consultative Council, conducts detailed staff surveys and organises regular open briefings with senior managers. Colleagues are encouraged to develop their skills, identifying the things they'd like to learn through annual reviews with managers and in partnership with the Staff Development Unit. When it works, this approach benefits not only individual members of staff but the whole of LSE, as an organisation which thrives on motivation, hard work and skill.

Philanthropy in action: the LSE Annual Fund

Unrestricted gifts received from LSE's alumni, friends, staff and students towards the Annual Fund help to ensure that a wide range of worthwhile and deserving causes across the School are supported. In the 2009-10 financial year over 3,000 supporters generously gave £782,511 to the fund. When combined with the UK government's Matched Funding Scheme, which currently provides the School with an additional £1 for every £3 raised through the Annual Fund, the value of funds raised through the Annual Fund in 2009-10 topped £1 million. The School interacts with donors and seeks to raise funds for the Annual Fund in a number of ways; from regular mail, email and telephone appeals to one-off campaigns such as the marathon sponsorship campaign by a member of LSE staff that was carried out at the beginning of 2010. The Annual Fund is committed to the widest possible allocation of funds towards a broad range of projects which help to improve academic excellence, enhance the student experience, strengthen the sustainability of world class facilities, advancing public engagement and support the School's ability to attract the best and brightest students in the world. In 2009-10, the funding was allocated to a number of projects including the New Futures Fund, which allowed 15 financially disadvantaged students to continue or begin their studies. LSE's Scholar at Risk programme was also supported, which aims, in the best traditions of LSE, to allow scholars who are under threat in their home countries to continue to work without fear of persecution at the School.

Pictured: Charlotte Gerada, Bottriell Scholar, 2009-10



Accounting policies



From left to right:
Bronisław Komorowski,
Acting President of Poland;
Clement House

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

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

The accounts set out on pages 19 to 39 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 United Kingdom Accounting Standards.

(b) Format of the accounts

The accounts are prepared to conform to the Companies Act 2006 and also with the Statement of Recommended Accounting Practice (SORP): Accounting for Further and Higher Education dated July 2007.

(c) Basis of consolidation

The consolidated financial statements consolidate the financial statements of the School and all its subsidiary undertakings for the financial year as set out in Note 11.

Where the School enters into a Joint Venture arrangement it consolidates its share of assets, liabilities, income and expenditure.

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) Income recognition

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

Fee income is stated gross and credited to the income and expenditure account over the period in which the students are registered. Where the amount of the tuition fee is reduced, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and included within operating income. Where the School disburses funds it has received as paying agent on behalf of the Funding Council or other body, and has no beneficial interest in the funds, the receipt and subsequent disbursement of the funds has been excluded from the income and expenditure account.

Recurrent Income from grants, contracts and other services rendered is accounted for on an accruals basis and included to the extent of

the completion of the contract or service concerned; any payments received in advance of such performance are recognised on the balance sheet as liabilities.

Non-recurrent grants received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants. The grants are credited to deferred capital grants and an annual transfer made to the income and expenditure account over the useful economic life of the asset at the same rate as the depreciation charge on the asset for which the grant was awarded.

Income from the sale of goods or services is credited to the income and expenditure account when the goods or services are supplied to the external customers against the order received or the terms of the contract have been satisfied.

Endowment and investment income is credited to the income and expenditure account on a receivable basis. Income from specific endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to specific endowments. Any realised gains or losses from dealing in the related assets are retained within the endowment in the balance sheet.

Increases/decreases in value arising on the revaluation or disposal of endowment assets i.e., the appreciation/depreciation of endowment assets is added to or subtracted from the funds concerned and accounted for through the balance sheet by debiting or crediting the endowment asset and crediting or debiting the endowment fund and reported in the statement of total recognised gains and losses.

Funding Council Matched Funding is accounted for on a receivable basis. The income is included as part of the surplus or deficit for the year and transferred to balance sheet to create an endowment.

(f) Land and buildings

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

The Finance Committee have reviewed the usable lives of the School's buildings and the depreciation policy is based on this.

Freehold land, separately identified since 2005, is not depreciated. Freehold buildings are depreciated over the remainder of their useful economic lives which range between six and 75 years. Where applicable, freehold buildings are depreciated by components as follows:

Building – 75 years

Roof – 25 years

Mechanical Services – 15 years

Lifts – 10 years

Leasehold buildings are depreciated over the remaining period of the lease.

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

Fire Certification Works at the School's Student Residences are depreciated over a period of 15 years. Capital projects which are still under construction are capitalised but not depreciated.

An annual review for impairment of fixed assets is carried out by the Finance Committee to determine whether events or changes in



circumstances indicate that the carrying amount of the fixed asset may not be recoverable and for assets deemed to have an economic life in excess of 50 years. No impairment has been charged to the 2009-10 accounts.

(g) Furniture, equipment and software

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 three and 10 years.

(h) Operating leases

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

(i) Stock

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

(j) Investments

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

(k) Joint venture entities and associates

The School's share of income and expenditure in joint venture entities is recognised in the institution's income and expenditure account in accordance with Financial Reporting Standard 9. Similarly the institution's share of assets and liabilities in associate entities is recognised in the institution's balance sheet in accordance with Financial Reporting Standard 9.

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

(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 of the University of London (SAUL). Both are defined benefits schemes and are separately funded and contracted out of the State Second Pension (S2P) Scheme. The assets of the schemes are held in separate trustee-administered funds. The School is unable to identify its share of the underlying

assets and liabilities of the schemes on a consistent and reliable basis and, therefore, accounts for the schemes as if they were defined contribution schemes. As a result, the amount charged to the Income and Expenditure Account represents the contributions payable to the schemes 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.

(o) Charitable donations

Unrestricted donations

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

Endowment funds

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

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

Donations for fixed assets

Donations received to be applied to the cost of a tangible fixed asset are shown on the balance sheet as deferred capital grants. The deferred capital grant is released to the income and expenditure account over the same estimated useful life that is used to determine the depreciation charge associated with the tangible fixed asset.

(p) Financial instruments

The School uses derivative financial instruments called interest rate swaps to reduce exposure to interest rate movements. Such derivative financial instruments are not held for speculative purposes and relate to actual assets or liabilities or to probable commitments, changing the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods or the contracts.

(q) Cash flows and liquid resources

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

Liquid resources comprise assets held as a readily disposable store of value including term deposits.

Consolidated income and expenditure account



From the left: Janet Napolitano, US Director of Homeland Security; Audience at an LSE public lecture; Clement House

Company Registration No 70527

	NOTES	2009-10 £'000	2008-09 £'000
INCOME			
Funding Council grants	1	30,616	29,549
Tuition fees and education contracts	2	106,613	96,679
Research grants and contracts	3	23,856	20,272
Other income	4	53,804	49,154
Endowment and investment income	5	4,805	7,205
VAT claim	6	1,224	–
Total income		220,918	202,859
EXPENDITURE			
Staff costs	7	117,905	107,726
Other operating expenses	8	75,162	69,952
Depreciation		5,421	5,184
Interest payable	9	3,201	2,444
Total expenditure		201,689	185,306
Surplus on continuing operations after depreciation of tangible fixed assets at cost and before tax		19,229	17,553
Surplus on continuing operations after depreciation of tangible fixed assets at cost and tax		19,229	17,553
Transfer to endowment within general reserve	20	(1,034)	–
Surplus for the year retained within general reserve	21	18,195	17,553

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

As permitted by Section 408 of the Companies Act 2006, the income and expenditure account of the Company is not presented as part of these financial statements. Of the total surplus for the year of £18,195,000, a surplus of £18,302,000 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



Company Registration No 70527

	NOTES	2009-10 £'000	2008-09 £'000
Surplus on continuing operations after depreciation of tangible fixed assets at cost and tax		19,229	17,553
New endowments	20	15,149	8,050
Endowment income movement for the year	20	(5,161)	(5,275)
Appreciation/(depreciation) of endowment asset investments	20	4,242	(2,262)
Total recognised gains and losses relating to the year		33,459	18,066
Reconciliation of movement in reserve and endowments			
Opening reserve and endowments		211,087	193,021
Total recognised gains and losses for the year		33,459	18,066
Closing reserve and endowments		244,546	211,087

Balance sheets



From the left: Professor Mary Morgan speaking at the launch of LSE100; Master's in Public Administration (MPA) lecture

Company Registration No 70527

	NOTES	Group 2010 £'000	School 2010 £'000	Group 2009 £'000	School 2009 £'000
Fixed Assets					
Tangible assets	10	247,427	246,892	242,255	241,700
Investments in subsidiary undertakings	11	–	150	–	150
Investments in joint ventures	12	417	–	418	–
		247,844	247,042	242,673	241,850
Endowment Assets	13	72,630	72,630	57,366	57,366
Current Assets					
Stock		86	86	82	82
Debtors	14	20,842	22,225	19,455	22,475
Cash at bank and in hand	15	18,009	15,527	21,685	18,648
Bank deposits	15	75,000	74,000	49,000	47,000
		113,937	111,838	90,222	88,205
Creditors: amounts falling due within one year	16	(63,607)	(61,022)	(59,037)	(56,620)
Net current assets		50,330	50,816	31,185	31,585
Total assets less current liabilities		370,804	370,488	331,224	330,801
Creditors: amounts falling due after more than one year	16	(33,382)	(33,382)	(34,688)	(34,688)
Pension provision	18	(193)	(193)	(214)	(214)
NET ASSETS		337,229	336,913	296,322	295,899
Deferred capital grants	19	92,683	92,683	85,235	85,235
Endowments					
Expendable	20	40,541	40,541	33,738	33,738
Permanent	20	32,089	32,089	23,628	23,628
		72,630	72,630	57,366	57,366
Reserves					
General reserve	21	171,916	171,600	153,721	153,298
		171,916	171,600	153,721	153,298
TOTAL		337,229	336,913	296,322	295,899

The financial statements on pages 19 to 39 were approved by the Council on 23 November 2010 and were signed on its behalf by

Kate Jenkins
Vice-Chairman of Court and Council

Howard Davies
Director

Consolidated cash flow statement



Company Registration No 70527

	NOTES	2009-10 £'000	2008-09 £'000
Cash flow from operating activities	22	36,702	37,192
Returns on investments and servicing of finance	23	(1,224)	1,796
Capital expenditure and financial investment	24	(8,997)	(10,139)
Management of liquid resources/deposits	25	(29,000)	(1,000)
Financing/loan repayment	26	(1,800)	(10,524)
(Decrease)/Increase in cash in the period	27	(4,319)	17,325

Reconciliation of net cash flow to movements in net funds/debt

(Decrease)/Increase in cash in the period		(4,319)	17,325
Cash outflow from liquid resources	25	29,000	1,000
Changes in net debt resulting from cash flows	26	1,800	10,524
Movements in net debt in period		26,481	28,849
Net funds at 1 August		52,450	23,601
Net funds at 31 July	27	78,931	52,450

Notes to the accounts



From the left: Thandika Mkandawire, Chair in African Studies, LSE; Anders Borg, Minister of Finance in the Swedish government

		2009-10 £'000	2008-09 £'000
1 FUNDING COUNCIL GRANTS	NOTES		
From the HEFCE			
Block Recurrent		27,156	27,729
Library Grants		234	234
Higher Education Innovations Fund Round 4		793	272
Matched Funding for Voluntary Giving		1,034	–
Other Specific Grants		476	276
Deferred Capital Grants Released in Year	19	661	660
		30,354	29,171
Joint Information Systems Committee and Other Grants		262	378
		30,616	29,549
2 TUITION FEES AND EDUCATION CONTRACTS			
Tuition Fees :			
Home/EU Students		31,096	27,123
Overseas Students		65,740	61,083
TRIUM MBA		1,748	1,612
Short Courses		7,597	6,398
Examination and Other Fees		432	463
		106,613	96,679
3 RESEARCH GRANTS AND CONTRACTS			
Research Councils		6,981	6,799
Government Departments		3,976	2,794
Charities		1,224	1,792
European Community		4,001	1,992
Other Outside Bodies		5,341	4,635
Specific Endowments	5	2,333	2,260
		23,856	20,272

Notes to the accounts cont...



		2009-10	2008-09
	NOTES	£'000	£'000
4 OTHER INCOME			
Residences and Catering		26,249	24,421
Rental Income		1,267	1,118
Other Services Rendered		3,524	1,478
Publications		1,071	1,107
Library		1,285	991
University of London International Programmes		6,523	4,925
Consultancy Services and Executive Education		7,748	8,100
VAT Recovery		1,321	2,812
Staff and Student Facilities		666	689
Academic Department Income Attributable to Other Activities		2,512	2,000
Release of Deferred Capital Donations	19	579	576
Sundry		1,059	937
		53,804	49,154
5 ENDOWMENT AND INVESTMENT INCOME			
Income from Expendable Endowments		563	949
Income from Permanent Endowments		906	1,074
Income from Endowments	20	1,469	2,023
Released from Endowments		5,161	5,225
		6,630	7,248
Less included in Note 3 Research Grants and Contracts			
Expendable Endowments		(1,825)	(1,790)
Permanent Endowments		(508)	(470)
	3	(2,333)	(2,260)
Investment of General Funds:			
Interest and Dividends Receivable		508	2,217
		4,805	7,205
6 VAT CLAIM			
Fleming/Conde Nast VAT claim		1,224	–
		1,224	–



From the left: Paul Volker, chair of President Obama's Economic Recovery Advisory Board in dialogue with Howard Davies; High Holborn Halls of Residence; Election night 2010 at LSE

	2009-10	2008-09
	£'000	£'000
7 STAFF COSTS		
Total staff costs for the year were:		
Wages and Salaries	98,551	90,097
Social Security Costs	7,993	7,770
Other Pensions	11,361	9,859
	117,905	107,726
Average number of persons employed by the School during the year expressed as full time equivalents:	Number	Number
Research and Teaching	920	830
Operational Services	1,191	1,115
Medical Services	1	1
Subsidiaries	17	15
	2,129	1,961
DIRECTORS' REMUNERATION	£'000	£'000
Directors		
Emoluments (2009/10 – nine Directors; 2008/09 – nine Directors)	953	912
Emoluments of the Director		
Salary	243	241
Benefits in kind	4	17
	247	258
Employer's pension contributions	38	33
	285	291

Salaries are stated at gross. All Directors joined a pension salary sacrifice scheme to make pension contributions. The Director's salary included £15,000 of pension contributions made under the salary sacrifice scheme.

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:

	Higher Paid Employees	
	Number	Number
£100,001 – £110,000	42	33
£110,001 – £120,000	18	9
£120,001 – £130,000	14	13
£130,001 – £140,000	14	9
£140,001 – £150,000	11	13
£150,001 – £160,000	6	1
£160,001 – £170,000	2	1
£170,001 – £180,000	2	1
£180,001 – £190,000	2	3
£190,001 – £200,000	2	1
£200,001 – £210,000	1	1
	114	85

Total remuneration includes salaries and other additional payments relating to Summer School, TRIUM and consultancy and executive education delivered via LSE Enterprise Ltd. It does not include payments for private consultancy or income earned from activities outside LSE and its subsidiaries. Payments for compensation for loss of office related to members of staff included in the above salary bands total £50,000 (Nil in 2008-09), which is funded from general reserve.

Notes to the accounts cont...



	2009-10	2008-09
	£'000	£'000
8 OTHER OPERATING EXPENSES		
Academic Departments	7,163	6,375
Library and IT Services	8,247	8,617
Research Grants and Contracts	5,973	4,082
Scholarships and General Educational Expenditure	13,828	14,604
Premises	12,478	11,384
Administration and Central Services	2,792	2,896
Staff and Student Facilities	1,627	1,669
Residences and Catering	15,742	13,352
Miscellaneous	7,312	6,973
	75,162	69,952
Other operating expenses include:		
Fees payable to the School's auditor for the audit of the annual accounts	55	50
Fees payable to the School's auditor and its associates for other services:		
Audit of the annual accounts of the School's subsidiaries	6	6
Other services relating to taxation	7	3
All other services	7	19
	75	78
9 INTEREST PAYABLE		
Loans not wholly repayable within five years	3,201	2,444
	3,201	2,444



From the left: The New Academic Building; Judge Sang-Hyun Song, President of the International Criminal Court (ICC) speaking at LSE

10 TANGIBLE FIXED ASSETS	LAND AND BUILDINGS		EQUIPMENT	ASSETS UNDER CONSTRUCTION	TOTAL
	£'000		£'000	£'000	£'000
	FREEHOLD	LEASEHOLD			
Group					
As at 1 August 2009	240,810	22,999	10,427	2,460	276,696
Additions	2,800	766	608	6,422	10,596
Transfers	2,236	377	(377)	(2,236)	–
Disposals	–	–	(6)	–	(6)
As at 31 July 2010	245,846	24,142	10,652	6,646	287,286
DEPRECIATION					
As at 1 August 2009	23,864	3,751	6,826	–	34,441
Charge for Year	4,016	523	882	–	5,421
Transfers	–	38	(38)	–	–
Disposals	–	–	(3)	–	(3)
As at 31 July 2009	27,880	4,312	7,667	–	39,859
NET BOOK VALUE					
As at 1 August 2009	216,946	19,248	3,601	2,460	242,255
As at 31 July 2010	217,966	19,830	2,985	6,646	247,427
School					
COST					
As at 1 August 2009	240,810	22,349	10,184	2,460	275,803
Additions	2,800	766	603	6,422	10,591
Transfers	2,236	377	(377)	(2,236)	–
As at 31 July 2010	245,846	23,492	10,410	6,646	286,394
DEPRECIATION					
As at 1 August 2009	23,864	3,645	6,594	–	34,103
Charge for Year	4,016	510	873	–	5,399
Transfers	–	38	(38)	–	–
As at 31 July 2010	27,880	4,193	7,429	–	39,502
NET BOOK VALUE					
As at 1 August 2009	216,946	18,704	3,590	2,460	241,700
As at 31 July 2010	217,966	19,299	2,981	6,646	246,892

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 objects d'art have been built up over many years, and include significant donations. Their value is not recorded in the accounts.

Notes to the accounts cont...



	Group 2010 £'000	School 2010 £'000	Group 2009 £'000	School 2009 £'000
11 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS				
Subsidiary Companies	–	150	–	150

Principal subsidiaries are:

Name	Nature of Business	Shareholding £1 Ordinary Shares	Number of Shares
LSE Enterprise Limited	Consultancy	100%	150,000
LSE LETS Limited	Vacation lettings	100%	2
VELSE Limited	Dormant	100%	0
LSE Asia Limited	Dormant	100%	0

All of the above are registered in England.

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

	Group 2010 £'000	School 2010 £'000	Group 2009 £'000	School 2009 £'000
12 INVESTMENTS IN JOINT VENTURES				
Joint Ventures	417	–	418	–

The School has a 50 per cent share in the *Journal of Transport Economics and Policy* being a Joint Venture with the University of Bath. Accounts have not yet been received for 2009-10 but the 2008-09 Accounts show the School's share of Turnover to be £46,000 and Operating Deficit to be £882.

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

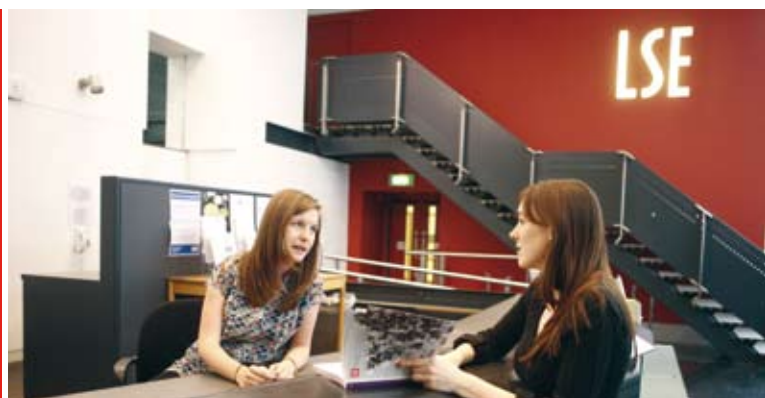


From the left: Computer Room Sidney Webb House; New sQuid Card; Library Course Collection

13 ENDOWMENT ASSETS – Group and School	2010 £'000	2009 £'000
Movement in the year:		
Balance at 1 August	57,366	56,853
Additions	10,569	5,881
Disposals	(1,904)	(2,832)
Appreciation/(depreciation) of assets including reinvested profits on sales	4,242	(2,262)
Increase/(decrease) in Cash Balance	2,357	(274)
Balance at 31 July	72,630	57,366
Analysis of closing balance:		
UK Equities	28,777	16,637
Overseas Equities	8,713	7,584
Gilts	143	147
UK Corporate Bonds	8,950	12,848
Other	172	1,912
Money Market Funds	6,620	1,340
Invested	53,375	40,468
Share of Freehold Property	33	33
Cash on Deposit	19,222	16,865
	72,630	57,366

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 Universities UK's headquarters in Tavistock Square.

Notes to the accounts cont...



	Group 2010 £'000	School 2010 £'000	Group 2009 £'000	School 2009 £'000
14 DEBTORS				
Amounts falling due within one year:				
Trade Debtors	8,255	5,654	6,036	4,414
Research Balances	4,734	4,734	5,652	5,652
Amounts due from Subsidiary Undertakings	–	4,001	–	4,656
Staff Loans for Housing	40	40	51	51
Other Debtors	5,386	5,371	5,252	5,238
Prepayments and Accrued Income	1,983	1,981	1,889	1,889
	20,398	21,781	18,880	21,900
Amounts falling due after more than one year:				
Trade Debtors	190	190	213	213
Staff Loans for Housing	254	254	362	362
	444	444	575	575
	20,842	22,225	19,455	22,475
15 CASH AT BANK AND IN HAND				
Cash at Bank	18,009	15,527	21,685	18,648
Fixed Term Deposits	75,000	74,000	49,000	47,000
	93,009	89,527	70,685	65,648
16 CREDITORS				
Amounts falling due within one year:				
Bank Loans	1,800	1,800	1,800	1,800
Trade Creditors	4,025	3,818	4,037	3,906
Research Creditors and Prepayments	11,756	11,756	9,334	9,334
Short Courses	148	148	111	111
Amounts due to Subsidiary Undertakings	–	1,041	–	1,204
Taxation and Social Security	2,917	2,917	2,676	2,676
Other Creditors	2,251	2,251	1,952	1,952
Accrual for Building Purchases	–	–	9,070	9,070
Accruals and Deferred Income	40,710	37,291	30,057	26,567
	63,607	61,022	59,037	56,620
Amounts falling due after one year:				
Bank Loans	31,500	31,500	33,300	33,300
Deferred VAT payments	1,882	1,882	1,388	1,388
	33,382	33,382	34,688	34,688



From the left: Student Services Centre; Ritt Bjerregaard, Mayor of Copenhagen; Learning at Work Day Street Fair

	Group 2010 £'000	School 2010 £'000	Group 2009 £'000	School 2009 £'000
17 BORROWINGS				
Bank loans are repayable as follows:				
In one year or less	1,800	1,800	1,800	1,800
Between one and two years	1,800	1,800	1,800	1,800
Between two and five years	5,400	5,400	5,400	5,400
In five years or more	24,300	24,300	26,100	26,100
	33,300	33,300	35,100	35,100

The School has arranged a £75,000,000 amortising loan facility repayable by December 2028 secured over three properties. £33,300,000 was drawn down at balance sheet date.

The School has entered into interest rate swap agreements with a nominal value totalling £65,000,000. The effective fixed rate costs of the loans and swaps taken together is between 5.0 per cent and 5.5 per cent. The swap agreements had a mark to market value of £12.7m at the balance sheet date.

18 PENSION PROVISION

Pensions
£'000

Group and School	
As at 1 August 2009	214
Transferred from Income and Expenditure Account	(21)
As at 31 July 2010	193

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'.

19 DEFERRED CAPITAL GRANTS	NOTES	Funding Council £'000	Other Grants and Donations £'000	TOTAL £'000
Group and School				
As at 1 August 2009		48,061	37,174	85,235
Cash Received		7,985	810	8,795
Released to Income and Expenditure Account – School	1 & 4	(661)	(579)	(1,240)
Released to Income and Expenditure Account – Residence		(19)	(88)	(107)
As at 31 July 2010		55,366	37,317	92,683

The deferred capital grants include Exchequer Interests.

Notes to the accounts cont...



20 ENDOWMENTS	NOTES	Restricted Expendable £'000	Restricted Permanent £'000	Restricted Total £'000	Total £'000
Group and School					
As at 1 August 2009		33,738	23,628	57,366	57,366
Capital Value		31,030	21,080	52,110	52,110
Accumulated Income		2,708	2,548	5,256	5,256
At 1 August 2009		33,738	23,628	57,366	57,366
Net Additions Disposal		9,146	6,003	15,149	15,149
Appreciation of Endowment Asset Investments		2,093	2,149	4,242	4,242
Investment Income	5	609	860	1,469	1,469
Expenditure for the year	5	(6,079)	(551)	(6,630)	(6,630)
HEFCE Matched Funding		1,034	–	1,034	1,034
At 31 July 2010		40,541	32,089	72,630	72,630
Represented by:					
Capital Value		37,924	29,317	67,241	67,241
Accumulated income		2,617	2,772	5,389	5,389
		40,541	32,089	72,630	72,630
		Group 2010 £'000	School 2010 £'000	Group 2009 £'000	School 2009 £'000
21 MOVEMENTS ON GENERAL RESERVE					
As at 1 August		153,721	153,298	136,168	135,659
Surplus for the Year		18,195	18,302	17,553	17,639
As at 31 July		171,916	171,600	153,721	153,298



From the left: Students studying on the new Library bean bags; Joaquin Alumnia, The Future of Europe lecture series; PC kiosks in the newly refurbished Library entrance hall

22 RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES	2010		2009	
	£'000	£'000	£'000	£'000
Surplus of Income over Expenditure for the Year on Total Activity Before Tax		19,229		17,553
Adjustment for Depreciation and Deferred Capital Grants				
Depreciation	5,421		5,184	
Profit on sale of Tangible Fixed Assets	3		–	
Deferred Capital Grants Released	(1,347)		(1,343)	
		4,077		3,841
Adjustment for Investment and Financing Cash Flows				
Investment Income Receivable	(2,019)		(2,248)	
Interest Payable	3,201		2,444	
		1,182		196
Adjustment for Restricted Fund Cash Flows				
Transfer to Income and Expenditure Account	(6,630)		(7,298)	
Additions to Funds	14,149		8,050	
		7,519		752
Adjustment for Joint Venture Profit		1		(1)
Adjustments to Working Capital				
(Increase)/decrease in Stocks	4		5	
Increase in Debtors	(1,387)		(4,042)	
Decrease in Creditors	5,064		19,271	
Less relating to:				
– Bank Loans/Finance Leases	–		(390)	
Transfer to endowment	1,034		–	
		4,715		14,844
Adjustment for Pension Provision		(21)		7
Net Cash Inflow from Operating Activities		36,702		37,192

Notes to the accounts cont...



Company Registration No 70527

23 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2010 £'000	2009 £'000
Income from Endowments	1,469	2,023
Other Investment Income	508	2,217
Interest Payable	(3,201)	(2,444)
	<u>(1,224)</u>	<u>1,796</u>

24 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

Payments to Acquire Tangible Fixed Assets	(10,596)	(17,335)
Deferred Capital Grants/Donations Received	8,795	8,834
Payments to Acquire Investments	(10,569)	(5,881)
Receipts from Sales of Investments	1,904	2,832
Permanent Endowments Received	1,469	1,411
	<u>(8,997)</u>	<u>(10,139)</u>

25 MANAGEMENT OF LIQUID RESOURCES

Cash Added to Fixed Term Deposits	<u>(29,000)</u>	<u>(1,000)</u>
-----------------------------------	-----------------	----------------

26 FINANCING

Bank Loan Repayments	<u>(1,800)</u>	<u>(10,524)</u>
	<u>(1,800)</u>	<u>(10,524)</u>

27 ANALYSIS OF CHANGES IN NET DEBT

	At 1 August 2009 £'000	Cash Flows £'000	Other Changes £'000	At 31 July 2010 £'000
Cash at Bank and in Hand	21,685	(3,676)	–	18,009
Endowment Cash	16,865	2,357	–	19,222
Less: Fixed Term Deposits within Endowment Cash	(17,000)	(3,000)	–	(20,000)
	21,550	(4,319)	–	17,231
Fixed Term Deposits	66,000	29,000	–	95,000
Debt due within one year	(1,800)	1,800	(1,800)	(1,800)
Debt due after one year	(33,300)	–	1,800	(31,500)
	<u>52,450</u>	<u>26,481</u>	<u>–</u>	<u>78,931</u>



From the left: Graduation;
Professor Nouriel Roubini;
The annual MPA Capstone
showcase at LSE

Company Registration No 70527

28 PENSION COMMITMENTS

The School participates in the Universities Superannuation Scheme (USS) and Superannuation Arrangements or the University of London (SAUL). Both are defined benefits schemes and are externally funded and contracted out of the State Second Pension (S2P) Scheme

Pension Scheme	USS		SAUL	
	2010	2009	2010	2009
Active members	1,176	1,138	539	541
Contribution rate made by School	16%	14%	13%	13%
Contribution made (in £'000)	9,769	7,951	1,640	1,501

(i) USS

The School participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The institution is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and 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 it 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 appointment of directors to the board of the trustee is determined by the company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; one is appointed by the Higher Education Funding Councils; and a minimum of two and a maximum of four are co-opted directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

The latest triennial actuarial valuation of the scheme was at 31 March 2008. This was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2010 are also included in this note.

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

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.4 per cent per annum (which includes an additional assumed investment return over gilts of 2 per cent per annum), salary increases would be 4.3 per cent per annum (plus an additional allowances for increases in salaries due to age and promotion reflecting historic Scheme experience, with a further cautionary reserve on top for the past service liabilities) and pensions would increase by 3.3 per cent per annum.

Standard mortality tables were used as follows:

Male members' mortality	PA92 MC YoB tables – rated down 1 year
Female members' mortality	PA92 MC YoB tables – No age rating

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

Males (females) currently aged 65	22.8 (24.8) years
Males (females) currently aged 45	24.0 (25.9) years

At the valuation date, the value of the assets of the scheme was £28,842.6m and the value of the scheme's technical provisions was £28,135.3m indicating a surplus £707.3m. The assets therefore were sufficient to cover 103 per cent of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of the past service liabilities of 4.4 per cent per annum (the expected return on gilts) the funding level was approximately 71 per cent. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the scheme was 107 per cent funded; on a buy-out basis (i.e., assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 79 per cent of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using a AA bond discount rate of 6.5 per cent per annum based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104 per cent.

Notes to the accounts cont...



The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions except that the valuation rate of interest assumed asset outperformance over gilts of 1.7 per cent per annum (compare to 2 per cent per annum for the technical provisions) giving a discount rate of 6.1 per cent per annum; also the allowance for promotional salary increases was not as high. There is currently uncertainty in the sector regarding pay growth. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

The scheme-wide combination rate required for future service benefits alone at the date of the valuation was 16 per cent of pensionable salaries and the trustee company, on the advice of the actuary, agreed to increase the institution combination rate to 16 per cent of pensionable salaries from 1 October 2009.

Since 31 March 2008 global investment markets have continued to fluctuate and at 31 March 2010 the actuary has estimated that the funding level under the new scheme specific funding regime had fallen from 103 per cent to 91 per cent (a deficit of £3,065m). Compared to the previous 12 months, the funding level has improved from 74 per cent (as at 31 March 2009) to 91 per cent. This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the two years and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions).

On the FRS17 basis, using a AA bond discount rate of 5.6 per cent per annum based on spot yields, the actuary estimated that the funding level at 31 March 2010 was 80 per cent. An estimate of the funding level measured on a buy-out basis at that date was approximately 57 per cent.

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

Assumption	Change in assumption	Impact on scheme liabilities
Valuation rate of interest	Increase/decrease by 0.5%	Increase/decrease by £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £1.5 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.7 billion
Rate of mortality	More prudent assumption (mortality used at last actuarial valuation, rated down by a further year)	Increase by £1.6 billion

USS is a 'last man standing' scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a major exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be theoretically possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee needs to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding what degree of investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, its investment consultant and the scheme actuary, and considers the views of the employers. The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate although the trustee is mindful of the desirability of keeping the funding level on the scheme's technical provisions close to or above 100% thereby minimizing the risk of the introduction of deficit contributions. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

The next formal triennial actuarial is due as at 31 March 2011. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

(ii) SAUL

The School participates in a centralised defined benefit scheme for all qualified employees with the assets held in separate Trustee-administered funds. The School has adopted FRS17 for accounting for pension costs. It is not possible to identify the School's share of the underlying assets and liabilities of SAUL. Therefore contributions are accounted for as if SAUL were a defined contribution scheme and pension costs are based on the amounts actually paid (ie cash amounts) in accordance with paragraphs 8-12 of FRS17. The scheme is open to the School's secretarial/clerical/technical staff. As at 31 July there were 541 staff who were members of the scheme.



From the left: Careers Centre library; Lord Mandelson at LSE public lecture; Grosvenor House Hall of Residence

Valuation method	Projected Unit	
	Past Service	Future Service
Investment return on liabilities		
before retirement	6.9% p.a	7.0% p.a.
after retirement	4.8% p.a.	5.0% p.a.
Salary growth (excluding an allowance for promotional increases)	4.85% p.a.	4.85% p.a.
Pension increases	3.35% p.a.	3.35% p.a.

SAUL is subject to triennial valuations by professionally qualified and independent actuaries. The last available valuation was carried out as at 31 March 2008 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:

The actuarial valuation applies to SAUL as a whole and does not identify surpluses or deficits applicable to individual employers. As a whole, the market value of SAUL's assets was £1,266m representing 100 per cent of the liability for benefits after allowing for expected future increases in salaries.

Based on the strength of the Employer covenant and the Trustee's long-term investment strategy, the Trustee and the Employers agreed to maintain Employer and Member contributions at 13 per cent of Salaries and 6 per cent of Salaries respectively following the valuation.

A comparison of SAUL's assets and liabilities calculated using assumptions consistent with FRS17 revealed SAUL to be in surplus at the last formal valuation date (31 March 2008).

The next formal actuarial valuation is due at 31 March 2011 when the above rates will be reviewed.

(iii) FSSU

The pensions of ex-members of staff who retired under the previous superannuation scheme for academic and related staff (FSSU) are supplemented as of right under the National Scheme for Supplementation of Superannuation Benefits. This supplementation is payable during the lifetime of the ex-member of staff and is increased each year by comparison with increases in public service pensions authorised under the Pensions (Increase) Act 1971. At the year end a provision has been established to meet the future obligations, see note 18.

	Group 2010 £'000	School 2010 £'000	Group 2009 £'000	School 2009 £'000
29 CAPITAL COMMITMENTS				
Old Building water treatment	884	884	–	–
Tower 1	187	187	–	–
	1,071	1,071	–	–

The Council approved £36.7m budget in respect of future New Student Centre. The School has appointed the main architect and has appointed the lead construction firm following a comprehensive tender exercise.

	Group 2010 £'000	School 2010 £'000	Group 2009 £'000	School 2009 £'000
30 OPERATING LEASES				
At 31 July the School had annual commitments under non-cancellable operating leases as follows:				
Within one year	6,402	6,402	6,106	6,106
Between two and five years	25,298	25,298	26,324	26,324
	31,700	31,700	32,430	32,430

Notes to the accounts cont...



31 RELATED PARTY TRANSACTIONS

The School has maintained a Register of Interests of all Council members. Written assurance have been obtained from all Council members in respect of themselves and their close family that for the year ended 31 July 2010, they have not unduly influenced any transaction between the School and a related party.

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

The School sold household goods in the Director's residence to the Director during the year at their market value determined by an independent valuation company.

The School received payments for services, billed at commercial rates, from Morgan Stanley Inc. Howard Davies, Director of the School, is a board director of the Morgan Stanley Inc.

The School received payments for career fairs, billed at commercial rates, from Markit Group. Tim Frost, a LSE Council Member, is a Board Observer of the Markit Group.

32 CONTINGENT LIABILITIES

The School is involved in a number of legal cases. No material financial liabilities are anticipated.

33 SCHOLARSHIPS AND ACCESS FUNDS

The School has spent £10,363,000 during the year (£10,165,000 in 08/09) on Student Support using general funds and trust funds to support hardship grants and merit awards.

Access Funds Consolidated and School	2010 £'000	2009 £'000
Balance Unspent as at 1 August	18	23
Funding Council Grants	48	52
Interest Earned	1	1
Disbursed to Students	(54)	(58)
Balance Unspent as at 31 July	13	18

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.

	At 1 August 2009 £'000	Additions funded by Loans and General Reserves £'000	Additions funded by Deferred Capital Grants £'000	Depreciation £'000	At 31 July 2010 £'000
34 FUNDING OF TANGIBLE FIXED ASSETS					
Land and Buildings	238,654	1,193	8,795	(4,520)	244,122
Equipment	3,601	605	–	(901)	3,305
	242,255	1,798	8,795	(5,421)	247,427

Funded by:

Deferred Capital Grants	85,235	92,683
Bank Loans/Creditors	35,100	34,782
General Reserves	121,920	119,962
	242,255	247,427



From the left: Sheikh Zayed Theatre, NAB; Beehive on Passfield Hall; LSE roof gardens on the main campus buildings for staff and students to grow vegetables

35 POST BALANCE SHEET EVENT

In September 2010, HMRC notified the School of the settlement of a Fleming/Conde Nast VAT claim. The net amount is recognised as income on the Income and Expenditure.

The School agreed to purchase a freehold building of 32 Lincoln's Inn Fields in October 2010 for the sum of £37.5m.

36 TRUSTEE EXPENSES

During 2009-10, the School paid expenses on behalf of one trustee totalling £3,000 for attendance of overseas events organised by the School. No employee trustees received any expense reimbursement in relation to the role as trustees. No payments were made to any trustee for serving as a trustee. A payment of £3,371 was made to Kate Jenkins, Vice Chair of Council, for delivery of lectures and related academic supervision activities for Gurukul scholars. A £15,000 fee is payable to Richard Sennett, then a member of Council, for chairing the LSE Cities Advisory Panel at the balance sheet date.

37 FIVE YEAR GROUP FINANCIAL SUMMARY

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Income					
Funding Council Grants	30,616	29,549	29,701	28,250	26,870
Tuition Fees and Education Contracts	106,613	96,679	91,371	80,462	72,316
Research Grants and Contracts	23,856	20,272	17,772	16,085	15,361
Other Income	53,804	49,021	42,744	38,204	31,217
Endowment and Investment Income	4,805	7,205	8,324	5,716	3,680
VAT Claim	1,224	–	–	–	–
Total Income	220,918	202,726	189,912	168,717	149,444
Expenditure					
Staff Costs	117,905	107,726	95,159	85,813	78,160
Other Operating Expenses	75,162	69,818	62,100	55,726	51,308
Depreciation	5,421	5,184	3,688	3,422	3,409
Interest Payable	3,201	2,445	2,519	2,583	2,830
Total Expenditure	201,689	185,173	163,466	147,544	135,707
Exceptional item	–	–	302	3,339	2,172
Surplus before tax	19,229	17,553	26,748	24,512	15,909
Taxation	–	–	(56)	64	–
Transfer to endowment	(1,034)	–	–	(65)	(105)
Surplus retained within general reserve	18,195	17,553	26,804	24,383	15,804
Net Assets	337,229	296,322	270,758	236,390	196,146
Deferred Capital Grants	92,683	85,235	77,744	73,476	59,779
Endowments	72,630	57,366	56,853	53,550	51,386
Reserves	171,916	153,721	136,168	109,364	84,981
Total	337,229	296,322	270,765	236,390	196,146

Corporate governance and internal control statement



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

The School is an exempt charity and company limited by guarantee. The Memorandum and Articles of Association form the LSE's constitutional documents. The School complies with the Committee of University Chairs (CUC) Governance Code of Practice and General Principles (2009); and Governors are expected to uphold the seven Principles of Public Life advocated by the Nolan Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership).

On 1 June 2010, the Higher Education Funding Council for England (HEFCE) became the Principal Regulator of the School as an exempt charity. As such, their compliance objective is, 'to promote compliance by charity trustees with their legal obligations in exercising control and management of the administration of the charity'. HEFCE's Model Financial Memorandum sets out the terms and conditions for payment of HEFCE grants to institutions and imposes on them additional reporting requirements aimed at ensuring compliance with the Charities Acts. Members of Council are charitable trustees and are required to discharge their duties of compliance with prudence and care and to accept ultimate responsibility for the affairs of the School. The ways in which LSE provides public benefit are documented elsewhere in these Accounts.

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; election of the Chair and Vice Chairs of the Court and Council and Honorary Fellows of the School; amendment to the Memorandum and Articles of Association; appointment of the external auditors. When the Directorship of the School is to be considered by the Directorship Selection Committee, the Court advises the Committee about the criteria for the Directorship and about the long term issues the next Director should address. 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., ten 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 the 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 internal controls, risk management, financial strategy and sustainability, estates strategy, human resource strategy, academic strategy, and student welfare 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 Committee, a Remuneration Committee, an Estates Strategy Committee, an Audit Committee, a Health and Safety Committee and a Chairman's Group of Council.

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

In accordance with good practice, in 2009-10 a Review Group was established under the Chairmanship of the Vice Chair of the Court and Council (an independent Council member) to conduct the triennial review of Council effectiveness. The Review Group, which comprised independent, student and academic governors, recommended the following:

- (a) that the current size and composition of the Council was fit for purpose;
- (b) that at least one Council per term should be reserved for discussion of strategic issues, leaving two meetings per term for regular business;
- (c) that a simple statement of the role of the Council should be designed for internal use;
- (d) that a scheme of delegation should be adopted, setting out clearly the authority delegated to committees, to the Director and to Senior Officers (this to complement existing delegations in the School's Financial Regulations);
- (e) streamlining of Committees of Council, retaining those which align clearly with Council's explicit areas of responsibility; and
- (f) streamlining of Council agendas and papers to enable Council members to focus on key issues and have sufficient time for substantive discussion.

A detailed implementation plan has been developed to ensure that these changes are introduced and the impact of the new arrangements will be assessed at the end of the 2010-11 academic year. In addition to the review of Council effectiveness, Committees of Council review themselves periodically. Changes made to the Audit Committee as a result of one such review are set out later in this statement.

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 the Council. The Vice Chair of the Academic Board serves as a non-Director member of the Council and makes a termly report to the Council.

Internal control

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

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

The 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 ending 31 July 2010. Where recommendations of the Council Effectiveness Review Group have impacted on arrangements from 1 August 2010 to the date of approval of the financial statements, this has been highlighted in the text.



*From the left: the Brahimi Panels, LSE, March 2010;
LSE Asia Forum 2010;
Prospective student at LSE
Open Day*

In 2009-10, Council met seven times – having six regular evening meetings and one all-day awayday. From 2010-11, Council will have up to nine meetings per year; two regular meetings per term plus one meeting each term reserved for discussion of strategic and longer term issues. Part of the remit of the Council 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 achievement of 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.

The governance arrangements set out in the guide issued by the Committee of University Chairmen (CUC) in 2009 have been reviewed in detail and the Council confirms that it complies with the recommendations of the guide in all material respects.

The identification of new and emerging strategic and operational risks arises primarily from continued dialogue between senior School officers, the Pro Directors and heads of academic and administrative departments/divisions, along with more routine horizon scanning activities. Where it is thought that a new and emerging risk requires urgent attention, this is first assessed by the Director's Management Team (DMT), which decides on i) the most appropriate course of action (if any) ii) where the appropriate senior management responsibility for that action lies. Where DMT risk assessment identifies that urgent Council consideration is required, risks may be addressed directly to Council, for example, in relation to proposed major capital projects or third party collaborations. All members of the Council receive the HEFCE assessment of institutional risk.

Following the dissolution of the Strategic Risk Committee on 31 July 2010, the Audit Committee have taken direct responsibility for scrutiny of the adequacy of risk controls and will meet more frequently from 2010-11 onward, in part to allow sufficient time for this important new aspect of their work. In respect of strategic risk management, the Audit Committee will report directly to Council, with Council – as governing body – retaining ownership of the Strategic Risk Register. Audit Committee members have engaged with a programme of training and development aimed at equipping them for these additional responsibilities.

In 2009-10, the Audit Committee met three times, with an additional joint meeting with the Strategic Risk Committee. It will in future meet five times per year. The School's internal audit service is provided in part by a directly employed Head of Internal Audit, with additional support provided under contract by BDO Stoy Hayward. The Head of Internal Audit 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 improvement. Internal audit's work includes continuing review of the strategic and operational risks associated with key School systems and units. In future years, the new Head of Internal Audit (appointed in Autumn 2010) will provide greater access for the Committee to assurances in the area of value for money.

The transition from 2009-10 to 2010-11 academic years has brought a number of changes to the School's audit arrangements. Following the departure due to career progression of Noel Lawlor on 23 July 2010, Ruth Ireland of BDO has acted as the School's Head of Internal Audit for the period ending with the approval of the 2009 Annual Accounts in late November 2010. Simone-Davis, appointed as the new Head of Internal Audit in September 2010 will oversee internal audit activities from December 2010 onward, with support continuing to be provided by BDO.

On 31 July 2010, Wol Kolade stood down as Chair of the Audit Committee, having completed a second and final term of office and

was succeeded by Alan Elias, independent Council member. Following a review of effectiveness, it was agreed that the following changes be made to the Audit Committee from 1 August 2010: increased frequency of meetings; the addition of further independent expert and independent governor members; improved access to a wider range of assurances; closed sessions of the Audit Committee and internal and external auditors (with no officers in attendance) that every meeting; and clarification as to the role of academic advisors.

The Audit Committee has explicit responsibility for providing an opinion to the Council on the arrangements in place for the management and quality assurance of data submitted to the Higher Education Statistics Agency (HESA), HEFCE and other funding bodies. In 2009-10, a number of data errors came to light. Whilst these had no implications for funding, they highlighted a need for improvement of controls and resulted in a limited assurance opinion from the Head of Internal Audit in respect of data quality. Following swift and full disclosure to the regulator, the Audit Committee are continuing to scrutinise a number of management actions in this area, which have already seen improved control systems for the verification and sign-off of data returns.

The Finance Committee also plays a significant role in relation to risk by advising Council on financial risks to the Strategic Plan. This includes considering the financial implications of non-financial risks. The Finance Committee receives regular reports from the Ancillary Programmes Board on non-core activities which attract additional income; an increasingly vital income stream for the School. The Finance Committee have also liaised closely with the Special Economies and Revenue Generation group established in 2009-10 to facilitate the achievement of a 5 per cent improvement in the overall financial position through a 'bottom up' approach to cost efficiencies and additional income generation. This action is deemed prudent, given the deteriorating public spending environment, and the approach is intended to negate or minimise any impact on the School's strategic priorities – teaching, research and student support.

The School has continued to develop its business continuity arrangements. The principal objective of these arrangements is to mitigate the potential impact on the School's teaching and research activities should any of the identified principal continuity risks crystallise. The activities undertaken during 2009-10 included seven desk-top exercises aimed at testing the adequacy of local business recovery plans and identifying areas in which resilience may be further improved. The Audit Committee and Strategic Risk Committees received reports on embedding and testing of business continuity arrangements during 2009-10. The focus of further work in 2010-11 will be on IT resilience and disaster recovery arrangements and embedding business continuity planning in academic departments.

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 Head of Internal Audit provides an annual independent opinion on the adequacy and effectiveness of the overall system of internal control.

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.

LSE Environmental Policy and report on environmental progress



This year the School can report significant progress in embedding strategies to minimise adverse environmental impact. The Environmental Management System has progressed to the Silver award of EcoCampus (the phased approach to ISO14001).

The LSE100 Course, Understanding the Causes of Things, including questions such as 'How should we manage climate change?' won a Green Gown Award. The Sustainable Futures student group was shortlisted and they continue to work closely with Estates to research and design responses to environmental challenges within the School. One result of their work has been the sale of LSE branded Smart Mugs to discourage the use of disposables in LSE and SU Catering outlets.

Elsewhere, student involvement as Residences Sustainability Champions and Eco Power Rangers has resulted in just under 8 per cent energy consumption reduction across the halls. The Student Union gained a Silver award in the NUS Sound Impact Awards.

Professor Janet Hartley welcomed over 70 staff from across the School to a Celebration of Sustainability as part of Adult Learners Week. The event acknowledged the twenty departments across the School that have participated in the DEFRA funded Green Impact project which sets simple criteria for minimising environmental impact, eg, by switching off lights and recycling. Twenty three other universities participated in the project. Over 700 employees will have come into contact with the project.

The Recruitment team have introduced a revised Job Description template that requires the post holder to minimise environmental impact in the performance of the role, and actively contribute to the delivery of the LSE Environmental Policy. This activity has been accompanied by awareness raising events and new induction materials and will be expanded over the next year.

All halls of residence now have a snapshot of their environmental impact on the welcome sheet for vacation guests and student residents. This includes data per bed for CO₂ emissions, water consumption, and waste sent to landfill, recycled and reused. End of term reuse and better buying and ReLove sales continue and Lord Stern has appeared in an LSE film to promote reuse activities to other universities.

A Sustainability Communications Plan is in place and has seen the introduction of a termly Green News communiqué.

November 2009 saw LSE win for a second successive year at the National Recycling Awards, this time scooping top recognition in the public sector for the most comprehensive approach to recycling. This was based on our pilot projects which include: food waste composting in Rosebery Hall (the compost can now be used in our food growing projects); bin the bin and communal recycling stations in the NAB – which has achieved a 90 per cent recycling rate and saves money by avoiding landfill tax and minimising bin liner purchases; and furniture reuse – saving the School £8k per month but requiring storage space and staff time to store, select and redistribute existing furniture. The new waste tender will roll these pilot initiatives out across the estate to make best use of their money saving potential by the end of 2010.

Opportunities for improvement and using the lessons learned:

In the People and Planet Green League, LSE has retained its leading place in London (jointly this year with Kingston) coming 15th nationally. This sees a drop from 2nd place nationally and reflects the need to make more progress against the Carbon Management Plan (approved by Council on 18 May 2010) and to reduce water consumption.

The legal requirements for Carbon Management have seen a renewed focus on this area and it is becoming increasingly clear that whilst this presents some challenges, it also offers considerable opportunities for cost savings. This will require a great deal of thought and collaborative working as we look at the opportunities for saving money from energy efficiency projects in halls and on campus (estimated at 22 per cent of total savings) space management (estimated at 17 per cent of total savings), centralised procurement strategies and other behaviour changes which will minimise our carbon emissions, save the School money and provide an upgraded working environment. LSE has a legal requirement to reduce emissions by at least 80 per cent by 2050 and at least 34 per cent by 2020, against a 1990 baseline. The Mayor's Climate Change Action Plan features LSE and commits the capital to a 60 per cent reduction by 2020. HEFCE requires a reduction of 20 per cent by 2012 and 35 per cent by 2017 with a target of 48 per cent by 2020 against a 2005 baseline.

The Sustainability in Practice public lecture series was hugely popular with a lecture by Jonathan Porritt being heavily over-subscribed, and Andrew Simms providing the most downloaded podcast in February (18,000 downloads in two weeks). The lecture series is set to continue.

The staff and student travel survey has shown us that whilst 95 per cent of our daily commuting is by public transport and therefore fairly low impact, we may want to look at ways of reducing our business travel emissions and acknowledging and promoting the positive impact an LSE education can bring, in particular to overseas students who fly to study with us.

The Capital Growth food production sites on LSE roof tops are tended by over 50 staff volunteers and have a following of over 100 people on Twitter. Passfield Hall hosts bee hives which have produced their first honey in 2010. The first LSE green roof (which will extend the life of the flat roof and absorb heavy rainfall) is a hit with the gulls nesting on Connaught House – four eggs hatched this Spring.

The New Student Centre has benefited from past experience in the development of the New Academic Building. Processes and outputs have been designed to minimise the environmental impact of the new building, including grey-water use. The St Philips development has set the requirement for a BREEAM Excellent rating (aspirational Outstanding), an A rated DEC and operational sustainability.

Full details of LSE's Environmental Policy can be found, www.lse.ac.uk/collections/environment

Endowment investment performance



From the left: Service Excellence Award presented to the Finance Division; Produce from the LSE roof gardens

Investment income of £1.5m from the School's various endowments along with tuition fees, government, research grants and related philanthropy represent the School's four main sources of income. Endowment support is the only form of income that can put the School in control of its own long term financial destiny. Throughout LSE's history, endowed gifts have made a meaningful but limited contribution to the School's portfolio of research and teaching. In an ever changing sector, the challenge facing LSE is to make endowment an integral part of its financial health.

As of 31 July 2010 LSE's endowments totalled £72.6m. The majority of this capital has come from private donations which have established Research Centres, Chairs, Lectureships, and Scholarships. An increasing number of individual donors and Foundations are recognising this form of support as vital to LSE's unique public benefit as a Charity focused on the 'betterment of society'. This is particularly the case regards to scholarship as the international reach, degree courses and research of students are dependent on fee income.

The School's endowment funds that have been invested are split into three separate pools. The basis of their operation has been subject to approval by the UK Charity Commission. The Endowment Management Group (EMG) sets the endowment budget, the investment return target and the level of payout based on a long term view of investment performance and endowment commitments. The Investments Sub-committee (IC) sets the investment strategies and determines the asset allocation to achieve the return target set by the EMG. Both EMG and IC reports to the LSE's Finance Committee (FC). The FC reports annually to the School's Council, the governing body of LSE and trustee of all endowment funds. The investment strategy of the School's Investments Committee is implemented by the LSE Finance Division using index tracking funds managed by BlackRock. When seeking endowed philanthropic donations the School's preference is to use a total return endowment strategy where the capital appreciation and investment income are used to generate an income for the purposes stipulated in the agreement between the School and a Donor.

The Investments Sub committee meet regularly to monitor performance and receive professional advice from our external advisors, Jewson Associates who are engaged to advise on investment strategy.

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

Pool A – manages the investment on a total return basis.

Pool B – manages the investment on an income basis.

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

Pool A and Pool B are run as 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 increased from £ 18.03 to £20.05 during the year, a gain of 11.2 per cent. A distribution of 26.31 pence per unit was made in the year, equivalent to a yield of 2.0 per cent on the opening market value giving a total return of 13.2 per cent for the year. The unit value of Pool B increased by 10.4 per cent from £18.81 to £20.76 and a distribution of 53.54 pence was made equivalent to a yield of 2.9 per cent giving a total return of 13.3 per cent for the year. The market value of the FER investments increased by 9.1 per cent and a distribution equivalent to 4.1 per cent of the opening market value was made producing a total return of 13.2 per cent for the year. The underlying investments tracked their indices within acceptable margins.

Asset allocation targets and tolerance bands for each pool have been set by Investments Committee as follows:

Endowment investment performance cont...



ENDOWMENT INVESTMENT PERFORMANCE	Market Value 31 July 2010	Asset Allocation Target	Tolerance Band	31 July Value Actual
POOL A	£'000	%	%	%
UK Equities	12,109	40	55-80	65.9
Overseas Equities	7,864	30		
Bonds	4,461	15	0-20	14.7
Absolute Return	171	0	0-15	0.7
Cash	5,695	15	0-5	18.7
	<u>30,300</u>	<u>100</u>		<u>100</u>
POOL B				
UK Equities	3,953	45	40-50	45.9
Overseas Equities	850	10	7-13	10.0
Bonds	1,520	20	35-50	17.6
Gilts	1,813	20		
Cash	480	5	0-5	5.4
	<u>8,616</u>	<u>100</u>		<u>100</u>
FER				
UK Equities	5,818	40	35-45	40.6
Bonds	5,409	38	50-65	37.8
Gilts	2,708	20		
Cash	380	2	0-3	2.7
	<u>14,315</u>	<u>100</u>		<u>100</u>
Other Gilts	143			
Freehold Property	34			
Cash on Deposits	19,222			
TOTAL PORTFOLIO	<u><u>72,630</u></u>			

Further information on the School's Endowment Assets and Endowment Funds is in Notes 13 and 20.

Statement of Council's responsibilities



From the left: Rafael Correa Delgado, President of the Republic of Ecuador, speaking at an LSE public lecture; Penguin sculpture, Houghton Street

In accordance with the Companies Act 2006 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 2006, 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 through 2010 and 2011; 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 Committee on behalf of the Council;
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by the Council and whose head provides the Council (through the Audit Committee) with a report on internal audit activities within the School and an opinion on the adequacy and effectiveness of the School's system of internal controls, including internal financial controls.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss. The maintenance and integrity of the London School of Economics and Political Science website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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

Report of the independent auditors to the Court of Governors of the London School of Economics and Political Science



We have audited the group and School financial statements (the 'financial statements') of the London School of Economics and Political Science for the year ended 31 July 2010 which comprise the group income and expenditure account, the group statement of total recognised gains and losses, the group and School balance sheets, the group cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the governing body, in accordance with section 124B of the Education Reform Act 1988 and Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Court of Governors those matters we are required to state to it 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 Court of Governors for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the School's Council and auditors

The Council's responsibilities for preparing the Group financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities on page 45.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and the 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 and are properly prepared in accordance with the Accounts Direction and the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education and have been prepared in accordance with the Companies Act 2006.

We also report to you whether income from funding councils, grants and income for specific purposes and from other restricted funds administered by the School have been properly applied only for the purposes for which they were received. In addition, we report to you whether, in all material respects, income has been applied in accordance with the statutes and, where appropriate, the financial memorandum with the Higher Education Funding Council for England.

We also report to you our opinion as to whether the information given in the report of the governors is consistent with the financial statements.

In addition we also report to you if, in our opinion, the School has not kept proper accounting records, if the School's financial statements are not in agreement with the accounting records and returns, or if we have not received all the information and explanations we require for our audit.

We read the Report of the Chairman of the Council and Court of Governors, the Report of the Director of the School, LSE and Public Benefit, the Corporate Governance and Internal Control Statement, LSE Environmental policy and report on environmental progress and Endowment Investment Performance and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements. We are not required to consider whether the statement of internal control (included as part of the Corporate Governance Statement) covers all risks and controls, or to form an opinion on the effectiveness of the institution's corporate governance procedures or its risk and control procedures.

Basis of opinion

We have conducted our audit in accordance with the 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 governing body in preparing the financial statements and whether the accounting policies are appropriate to the Group and School's circumstances, consistently applied and adequately disclosed.

We planned and have performed our audit so as to obtain all the information and explanations we considered necessary 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and the School as at 31 July 2010 and of the group's surplus of income over expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 2006, the Accounts Direction and the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education.
- the information given in the Report of the Directors is consistent with the financial statements
- in all material respects, income from the Funding Council, grants and income for specific purposes and from other restricted funds administered by the School during the year ended 31 July 2010 have been applied for the purposes for which they were received
- in all material respects, income during the year ended 31 July 2010 has been applied in accordance with the School's statutes and, where appropriate, with the financial memorandum with the Funding Council.

Judith Newton

Senior Statutory Auditor for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Central Milton Keynes
23 November 2010

Officers responsible for the School's finances



Peter Sutherland KCMG

Chairman
Court of Governors



Ms Kate Jenkins

Vice-Chairman
Court of Governors



Ms Anne Lapping

Vice-Chairman
Court of Governors



Mr Brian Smith

Chairman
Finance Committee



Mr Richard Goeltz

Vice-Chairman
Finance Committee



Howard Davies

Director



Professor Janet Hartley

Pro Director



Professor George Gaskell

Pro Director



Professor Sarah Worthington

Pro Director (until 31 July 2010)



Professor Stuart Corbridge

Pro Director (from 1 August 2010)



Mr Adrian Hall

Secretary and Director
of Administration



Mr Andrew Farrell

Director of Finance and Facilities



Mr Mike Ferguson

Director of the Finance Division



Ms Ashley Wang

Financial Controller



Directors of the School and the members of the Council during the year 2009-10



Ex-Officio members

Peter Sutherland

Chairman of the Court and Council

Sir Anthony Battishill

Vice Chairman (until 31 December 2009)

Ms Kate Jenkins (1 August 2008 – present)

Vice Chairman (from 1 January 2010)

Ms Anne Lapping

Vice Chairman

Howard Davies

Director of the School

Professor George Gaskell

Pro-Director of the School

Professor Sarah Worthington

Pro-Director of the School (until 31 August 2010)

Professor Stuart Corbridge

Pro-Director of the School (from 1 September 2010)

Mr Brian D Smith

Chairman of the Finance Committee

Mr Aled Dilwyn Fisher

General Secretary of the Students' Union (until 7 July 2010)

Ms Charlotte Gerada

General Secretary of the Students' Union (from 8 July 2010)

Lay members

Mr Stephen Barclay

Ms Vivina Berla

Ms Angela Camber

Ms Shami Chakrabarti

Ms Bronwyn Curtis

Mr Alan Elias

Mr Mario Francescotti

Mr Timothy Frost

Mr Oluwole (Wol) Kolade (until 31 July 2010)

Mr Richard Karl Goeltz (from 1 August 2010)

Mr William Nigel Hugill (from 10 December 2009)

Ms Sophie de la Hunt (until 9 December 2009)

Mr George Wetz (from 10 December 2009 – to 31 July 2010)

Professor Richard Sennett (until 31 July 2010)

Professor Emily Jackson (from 1 August 2010)

Professor Paul Kelly

Dr David Lane (until 31 July 2010)

Professor Martin Anthony (from 1 August 2010)

Professor Robin Mansell (until 31 July 2010)

Dr Matthew Engelke (from 1 August 2010)

Professor Eileen Munro

Professor David Marsden (until 31 August 2010)

Professor Janet Hunter (from 1 August 2010)

Members of the Council not Directors of the School

Professor Janet Hartley

Professor Christopher Brown (until 31 August 2010)

Professor David Marsden (from 1 September 2010)

Professor George Philip (until 31 July 2010)

Professor David Stevenson (from 1 August 2010)

Company Secretary

Mr Adrian Hall



LSE academic departments

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

Research centres

Asia
Biosciences and Society (BIOS)
Cities
Climate Change Economics and Policy (CCCEP)
Diplomacy and Strategy (IDEAS)
Economic Performance (CEP)
Economics and Related Disciplines (STICERD)
Financial Markets (FMG)
Global Governance
Grantham Research Institute (GRI)
Health and Social Care
Human Rights
International Growth (IGC)
Middle East
Philosophy of Natural and Social Science (CPNSS)
Risk and Regulation (CARR)
Social Exclusion (CASE)
Spatial Economics (SERC)
Time Series (CATS)

