Annual Accounts

for the year ended 31 July 2012

LSE The London School of Economics and Political Science

Contents

Welcome from the new Director – Professor Craig Calhoun

The London School of Economics and Political Science is an extraordinary institution. I am delighted to have been appointed Director from September 2012.

Professor Judith Rees

First, I must pay tribute to Judith Rees for her exceptional contribution during her term as Director from May 2011 to August 2012. While overseeing the work to implement the recommendations of the Woolf Report, she has also led the School in another very successful year's teaching, research and public engagement activities. And its tenth consecutive year of above target financial contribution. I am personally indebted for her warm welcome and commitment to an effective handover and I look forward to working with her as she resumes her post as Director of the Grantham Research Institute on Climate Change and the Environment.

Our goals

My primary long-term goals are to sustain and, where possible, to enhance LSE's many existing strengths and to focus its identity and sense of purpose. Today's staff and governors are stewards of the world's foremost social science university and a school that is special in many other ways, including its public presence in Britain, its traditions of critical, creative, and cross-disciplinary study, and its remarkable global character. I want the School to be outstanding in research, dedicated to offering students an exceptional education, and engaged with public issues – partly through teaching and research and also through a range of other connections to policy and debate in London, Britain, Europe and the world. I hope these goals are shared by the whole LSE community, as meeting them will be a collective task. We also need to enable individual staff to thrive in their academic pursuits and, with colleagues in administration, I will try to ensure that LSE is a good and productive place to work.

Strategic choices

With these goals in mind, I look forward to working together with all at LSE, and our colleagues, friends, alumni and partners in our wider networks across the world. One part of this work will be consideration of some big questions for LSE. While I know some of the questions, I'm counting on the LSE community to raise others and to work together to develop the answers. These issues include how we respond to changes in university and student financing in the UK, upheavals in Europe, and increased global competition. Higher education and research face a very turbulent environment. But strategic choice is not only about how we respond to external pressures (and opportunities). It is also about what we want to achieve and how we pursue our goals proactively. It is about assessing what we do well and what we can do better. Decisions about development of philanthropic income and continuing redevelopment of the estate need to be taken in relation to others: will we enrol the same number of students, what will they will study, and how may teaching itself change? Our commitment to excellence in research is not simply generic, but requires us to set priorities for investments ranging from space for research centres, to IT, to new faculty positions to keep us at the forefront of the intellectual fields to which we are committed. Even preserving features we don't want to change demands a strategy to secure the necessary resources and the participation of the whole LSE community in that effort.

London

The Olympics and Paralympics have shown that London is an exciting, vibrant, cosmopolitan and surprisingly human place where people from all around the world want to come. We benefit a great deal from the School's location at the heart of London, but it also presents challenges. Hopefully, the government will sort out the issues relating to immigration that are discouraging some students from considering it as a place to study, and that add to the difficulties of non EU citizens who wish to work here or to visit and to make their contribution to the UK's rich academic environment. More challenging, while there are unparalleled opportunities for residents of London to enjoy cultural, social and academic activities, including LSE public events, at little or no cost to themselves, London is becoming a very expensive place to make home. We will need to develop creative solutions to ensure that we can continue to attract and retain world class faculty from around the world.

Financial position

LSE is fortunate to be in a strong financial position – in the short term. We are grateful that our accounts show a healthy surplus. This excess of revenue over immediate expenses provides our ability to meet longer term costs including capital improvements – like new buildings and remodelling that improves our campus. Our wonderful New Student Centre is made possible by a combination of such surplus and a gift from Professor Saw for whom it is named. Such philanthropy is also vital to the future of the School.

2012-13

The day to day work of the School does not stop for the next year or so while we contemplate strategy. It is the final year of work up to the 2014 Research Excellence Framework and all departments and research centres are working hard to ensure that the result reflects the outstanding quality and impact of research of which the LSE academic community is capable. It is also the first year of the £9,000 cap for UK/EU undergraduate students, albeit that LSE, being different, charges only £8,500. All students should benefit from the work that the Teaching Task Force under Professor Janet Hartley's leadership has done to improve teaching quality at the School in recent years, though there is still more to do.

A new term

Just as I started my term of office, around 9,000 students also started a new term – for the majority, their first term – at the School. It is an exciting time, and an exciting place, full of challenges and full of opportunities. I am sure we will all work hard, learn much, enjoy it and, in our different ways, develop as people and make our contribution to LSE and the wider world. It is a privilege to be here.

Craig Calhoun

Craig Calhoun
Director (from September 2012)

Report of the Chairman of the Council and Court of Governors

The over-riding theme of the last year has been one of change. Externally, the UK higher education landscape has shifted significantly in relation to student fees and funding, caps on student numbers and immigration policy. Internally, there have been changes to the leadership of the School, with several long serving senior members of staff coming to the end of their periods in office or leaving for well-earned retirements.

I would like to begin by thanking Professor Judith Rees for her outstanding service as Director of the School throughout the 2011-12 academic year. Assuming the Directorship following the departure of Sir Howard Davies, she managed to convert a period of turmoil into an opportunity for LSE to set a new standard for conduct in Higher Education. As part of her legacy, she leaves the School with an over-arching Ethics Code in place, as well as permanent procedures for the ethical screening of grants and donations. In the PhD area, the School has considerably tightened up procedures and guidance and has gone beyond the recommendations made in the Woolf Report to ensure conformity with best practice in the admission, training and examination of PhD students.

I welcome our new Director, Professor Craig Calhoun, who took up post on 1 September 2012. Craig joined us from New York University, where he was School Professor and Director of the Institute for Public Knowledge and President of the Social Sciences Research Council (USA). A highly regarded multidisciplinary social scientist, he combines intellectual credibility with strong leadership skills and I very much look forward to supporting him in his new role. As a first task, Professor Calhoun will be engaging the School community in a wide-ranging debate about our strategic direction: how we might build on existing strengths and seize the exciting opportunities ahead. I look forward to those discussions.

Externally, immigration controls have been a major concern for universities over the past year. At LSE, around two-thirds of students come from outside the UK and the cost for LSE of complying with student visa rules comes to some £250,000 a year. Appeals to the Government to remove university students from net migration figures have yet to bear fruit. These problems do not end with students. The School has a cosmopolitan staff, with about 45 per cent drawn from countries outside the UK. Those affected by the frequent changes to immigration rules are naturally concerned and considerably inconvenienced. We are, of course, very concerned to ensure that talented individuals from across the globe will not be deterred from coming to the School.

Home/EU undergraduate students arriving this year were the first to face tuition fees of £8,500 per year. Despite an anxious wait, the fee increase does not appear to have affected demand, with the School receiving 13 applications per place for Home/EU students and 16 per place for overseas students. However, we remain concerned about the impact on those completing their undergraduate studies in 2015 who may be discouraged from applying for postgraduate study by accumulated debt and lack of access to government loans. In response, the School will continue to monitor bursary provision, has established a long term investment fund to support endowment funds, and this year launched a number of fully funded PhD studentships. The investment in these studentships doubles the number of full awards for postgraduate research students, and over 100 awards will be available for entrants applying from 2013 onward.

A welcome development has been the Government's move to allow institutions to recruit unlimited numbers of Home/EU undergraduate students achieving AAB grades or higher at A level, effectively removing the cap for those UK institutions who recruit only the best qualified students. Against this backdrop, the 2012 strategic review will consider, amongst other key issues, the ideal future size and shape of the School.

The 2011-12 academic year saw a review of the effectiveness of Council, our governing body, ably led by Anne Lapping, Lay Governor and Vice Chair of the Council and Court of Governors. The recommendations of that review were accepted by the Council at their annual strategic away-day in September 2012 and work has now begun on embedding cultural and structural changes in line with a detailed implementation plan.

The School continues to attract exceptionally bright students and to provide them not only with an outstanding education but a good student experience. It was pleasing to see that the School has continued to improve its performance in the National Student Survey, with approval ratings for overall satisfaction rising to 85 per cent in 2012 (up from 77 per cent in 2008). Hopefully satisfaction will continue to rise as future generations of students come to benefit from the significant investment being made in the estate, including the planned opening of the Saw Swee Hock Student Centre (named in honour of Singaporean alumnus and philanthropist, Professor Saw) and the redevelopment of the Grade II listed building at 32 Lincoln's Inn Fields.

Changes to the estate over the past year have been matched only by changes in personnel. I would like to thank those members of the LSE Council whose terms of office ended on 31 July 2012: Vivina Berla, Lay Governor; Bronwyn Curtis, Lay Governor; Professor Janet Hartley, Pro-Director (Teaching and Learning).

I am grateful to Vivina and Bronwyn for their contributions not only to the Council, but to committees and working groups of the School. My thanks to Janet for her excellent stewardship of the Teaching Task Force, efforts to improve campus relations and work on inter-faith issues. I am sure that her successor, Professor Paul Kelly, will keep up the good work particularly in driving excellence in teaching and improving the student experience.

There have also been changes in the School's administration. Susan Scholefield took up post in June 2012 as School Secretary from her previous role as Director General of Human Resources and Corporate Services at the Ministry of Defence. Susan succeeded Adrian Hall, formerly Secretary and Director of Administration, who served the School with loyalty and distinction for nearly 40 years.

Peter Sutherland, KCMG
Chairman of the Council and Court of Governors

Report of the Director of the School for 2011-12 – Professor Judith Rees

My two main priorities when taking over as Director in May 2011 were to ensure that the School learned the lessons from the Woolf Report and to get our focus back on teaching excellence, research of international quality and effective public engagement. The work has been very much a team effort. I want to express my heartfelt thanks for the exceptional support of staff, students, Council members, other governors and all of the School community during my short period of service as Director.

Students

First, on student admissions I can report that applications for 2012-13 entry remain strong, with 13 applicants per place for Home/EU undergraduate students and 16 per place for other overseas students. There has been some reduction in applications where A*, A, A, is now specified for some courses.

Many of our fears over the challenges of moving to the new fees regime do not appear to have materialised. There is no direct evidence so far that the introduction of fees has resulted in reduced applications to the School, nor does there appear to have been a marked move away from disciplines which are not obviously linked to employment. However, there will be a need to monitor the situation closely, as there is now much competition for students with good "A" level grades and we need to ensure that our bursary scheme allows high quality students from disadvantaged backgrounds to come to LSE.

Under the HEFCE's student number allocation arrangements that are due to come into place for 2013, the School will no longer have any effective cap on the home/EU students it can take. Next year we should be able to take all the students we wish who achieve ABB or better in the "A" level exams. In practice we rarely admit students with "A" level grades below ABB so we will no longer come under numbers control. A number of Universities have already announced that they will increase their student intake, most notably Bristol and University College London. This makes it an opportune time to take forward the debate on the size and shape of the School, which is one of Craig Calhoun's key strategic priorities.

Although postgraduate taught applications to the School are down only very slightly, there is some potential concern about the level of applications from some areas in comparison with 2011-12.

I am delighted that under Professor Janet Hartley's leadership the actions of the Teaching Task Force have resulted in further improvement in student satisfaction in the National Students' Survey, but there is more to do to ensure we are in line with the best in all subjects. Also, at present the National Student Survey covers only undergraduate programmes. The government wants to run it, or something equivalent to it, at taught Masters level. We have run a pilot internal postgraduate survey during the year, and will be looking to ensure excellent student satisfaction at all levels in the coming years.

Financial situation

The School's financial position remains strong. For the tenth consecutive year there is a relatively high surplus, the School's cash deposits are greater than its debt and it is forecast that sufficient surpluses will be generated to finance continued estate improvement for the foreseeable future. I am pleased to report that the long term investment fund to support endowment funds, the proposal for which the Council ratified earlier in the year, has now been set up with initial funding of £10m. It will clearly be many years before the fund will allow us a significant cushion against adverse events or provide us with the flexibility we will need to remain competitive, but a start has now been made.

Fundraising in the year did see a dip, but I remain encouraged by the commitment to LSE of both our 100,000 plus alumni and other friends and supporters. I see the development of philanthropic income playing an increasingly important role in maintaining our financial health. However for the foreseeable future our ability to fund our academic activities will depend on how well we can respond to the challenges of remaining at the forefront of social science research, able to recruit the best staff and students, while developing management and governance systems which are cost effective and responsive to change and encourage innovation.

Research

Most people at the School accept that we are now operating in a more competitive environment where the quality and performance of the research and teaching staff will be critical in maintaining the School's reputation and attracting funding.

Increasing research funding from non-HEFCE sources is now even more important given the cessation of funding for research rated in the RAE/REF as being of 2* quality or below. Work has begun to improve support and encouragement to staff to bid for research grants and contracts, but we maintain a position of not seeking funding for work that does not lead to high quality research or research impact.

Staff

We are seeking to add to our staff through investment designed to attract the social science research leaders of the future. During the year Finance Committee approved an additional £3m per annum for a Research Quality Investment Fund. This will allow us to hire about 20 outstanding academics ahead of the 2014 Research Excellence Framework assessment.

Over 25 per cent of the academic staff aged between 25 and 49 are now from outside the EU and we anticipate that this percentage is unlikely to fall if we are successful in recruiting the highest calibre of staff. We are also very concerned that, as with students, new immigration and visa requirements may become a significant barrier to recruitment of the best staff.

Management Changes

There have been significant changes in the senior management team in the year. Two colleagues have retired after outstanding service: Adrian Hall, Secretary and Director of Administration and Jean Sykes, Chief Information Officer. Professor Janet Hartley has returned to academic work on Russian history after her very successful term as Pro Director (Teaching and Learning) and has been succeeded by Professor Paul Kelly, former Head of Department of Government. Simeon Underwood has been promoted to Director of Academic Services and Academic Registrar and Andy Farrell,

Report of the Director of the School for 2011-12 – Professor Judith Rees continued...

while continuing as Director of Finance and Facilities has gained additional responsibilities for IT services. We have three outstanding new recruits: Susan Scholefield as School Secretary, Nick Deyes as Director of Information Management and Technology, and, last but not least, Professor Craig Calhoun, as Director from 1 September 2012. To provide continuity the School is fortunate that Professor George Gaskell agrees to remain as a Pro-Director.

Intense research culture wins LSE trust, admiration and funding

The demand for universities to produce high quality research is stronger than ever. In 2014, the Research Excellence Framework will assess the published research for all UK universities and the outcome will shape the allocation of public funding of research for years to come.

LSE is working hard on its submission – but there are already other measures which suggest the quality of its academic work.

For example, the sheer number of grants made to LSE researchers shows how their proposed projects capture the imagination and set the agenda. Over the last five years, the number of active grants funding research at LSE has ranged from 432 to 479 annually.

And the large majority of these feature LSE academics as the leader, or co-leader, of the research project in question – from 309 five years ago to 349 in the latest financial year.

Since there are the equivalent of 963 full-time academic staff at LSE, this means that well over a third of them are leading live research projects.

This level of immersion in high quality research was one of the reasons why LSE did so well in the last national assessment of research quality (the 2008 RAE). We had the highest percentage of world-leading research of any university in the country and were rated best in economics, law, social policy and European studies.

LSE's ambition for 2014 is to do better still, to show that the reason scarce research funds are so often trusted to LSE is a confidence that the results will continue to light up the world.

The Woolf report

It was inevitable that much time and effort have been put during the year into dealing with the implementation of the recommendations from the Woolf Report. All 15 recommendations have been, or are in the process of being implemented. For some actions, it will take two or three more years to embed them fully and to measure their effectiveness.

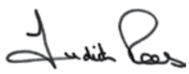
The ethical proposals in Woolf – the overarching Ethics Code, the Ethics Policy Committee, and the Ethics (Grants and Donations) Panel – have been put in place but it will take time to ensure that they work well in practice.

All of the recommendations in the (post Woolf) Hunter Review on research governance have been accepted. They will have important implications for the way research is assessed and managed at LSE. The aim is to have governance structures which ensure formal and regular academic scrutiny of all named research initiatives within the School.

Finally, the implementation of the recommendations of the Lapping Review of Council effectiveness will need to be monitored and an assessment made of how far they, along with other measures, address the concerns over School governance raised by Woolf.

Conclusion

2011-12 has been a challenging year for the School, but we have pulled together and had a successful year in almost all important areas. My sense is that the School is now in pretty good heart and staff and student morale is generally high. My job as Director is done. It was hard work and a privilege, and I return to my research. People are feeling very positive about the future for the School under Craig Calhoun's leadership and I wish him and the whole School all success.



Professor Judith Rees
Director (until 31 August 2012)

Report of the Directors

Business review and principal activities

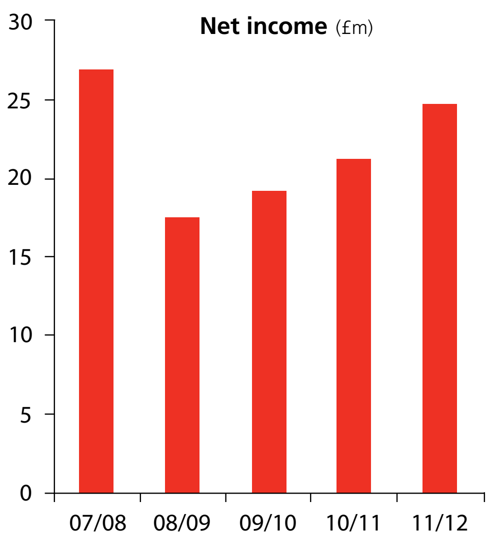
The principal activities of the School in the year under review were Higher Education, Research and related additional activities. These additional activities include consultancy, conferences, public lectures, the provision of catering and accommodation services and the publication of academic journals.

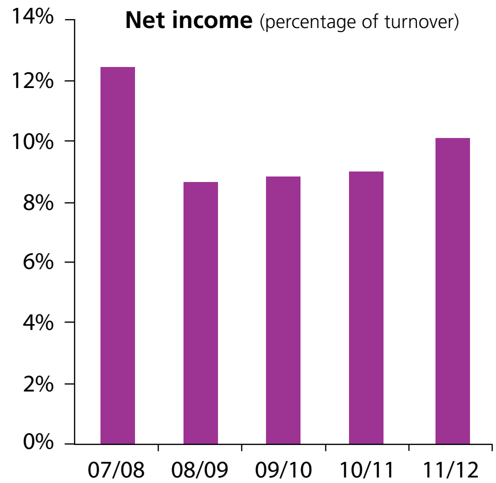
Financial overview

For the financial year ending 31 July 2012 the School achieved a surplus of income over expenditure of £24.7m, equivalent to 10.1 per cent of turnover, compared to £21.2m for 2010-11 (9.1 per cent of turnover). This surplus included £0.5m (2010-10 – £1.2m) received from the HEFCE "Matched Funding Scheme" for voluntary giving. The 2010-11 surplus included an exceptional surplus of £2.3m from the sale of two small residential properties.

The School sets a budget based on assumptions concerning income and expenditure that is designed to ensure a sustainable long term surplus of income over expenditure in the range of three to five per cent of turnover. This target recognises that a sustainable surplus of at least that amount is essential to fund loan repayments, to support capital and infrastructure investment and to provide the School with the flexibility to invest in new academic initiatives. A combination of strong student recruitment, an increase in the contribution from ancillary activities and strong financial management have delivered consistent surpluses in recent years and 2011-12 is no exception. Over the past five years the School has achieved an average surplus of 11 per cent, generating £109.4m which has allowed the School to pay down debt, achieve a significant net cash position and to make great progress in improving and expanding the campus.

The Council is concerned about the prospect of significant reductions in public funding of higher education in the coming years. To ensure the School is in a position to continue to support excellence in research and teaching it has decided – subject to capital expenditure requirements – to transfer each year those elements of the surplus that relate to the net impact of above target student recruitment, scholarships awarded but not taken up, and other one-off receipts to a new general reserve. For 2011-12 the sum of £10.0m has been transferred to this reserve.





Income – total

	2011-12 £m	2010-11 £m	% Change
Funding Council grants	28.0	29.7	-5.7%
Tuition fees	126.7	114.7	10.5%
Research grants and contracts	22.7	24.1	-5.8%
Other income	60.3	56.9	6.0%
Endowment and investment income	6.0	6.0	0.0%
Surplus on sale of residences	–	2.3	-100.0%
Total income	243.7	233.7	+4.3%

Gross income grew by 4.3 per cent (2010-11, 5.8 per cent). Tuition fee income increased by 10.5 per cent and represented 52.0 per cent of income compared to 49.1 per cent in 2010-11. For the first time tuition fee income has exceeded half of all income. The withdrawal of public funding for home and EU undergraduates between 2012 and 2014 and increased home EU fees undergraduate fees will accelerate this trend. The School has set its home and EU undergraduate fee at £8,500 per annum for 2012, a level that will allow the School to offer bursaries averaging £2,600 per student and to compensate for the loss of teaching grant. The School was unique amongst the Russell Group of research intensive universities in setting its fee below the maximum permitted level.

The School remains concerned about the possible impact of this switch from grant funding to student fees on UK students' finances, and on student recruitment at both undergraduate and postgraduate level, although there is no indication of its having a significant effect on applications to study at LSE so far.

Funding Council grants

At 11.5 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. This proportion is falling and will continue to do so as public funding for teaching is withdrawn between 2012 and 2014.

Students

The School had 9,108 full time students in 2011-12 which was a little ahead of the target of 9,000 full time students and is a contributing factor to achievement of a sound surplus. Under the leadership of the new Director, Professor Craig Calhoun, the School has started an internal conversation about whether to grow in size over the next few years and if so in what ways.

The School provides financial support for students through a comprehensive range of bursaries and support packages. In 2011-12 £10.7m was spent, funded by philanthropic, endowment and other income.

Research income

In total, income from research grants and contracts fell by 5.7 per cent compared with 2010-11. Although UK Research Councils remain amongst the largest funders of research, accounting for 21.9 per cent of the School's overall research income, total income from this sector has fallen by 15.9 per cent since 2010-11, largely due to the drop in the number of new awards being funded. On a more positive note the School was pleased to receive news of success in securing funding for two new ESRC research centres, the Centre for Systemic Risk and the Institute for Macro Economics. Both will start in early 2013, heralding recovery in this income source.

There has also been some significant success in securing grants from the EU Commission and other EU based funders with an increase of income from this sector of 9.3 per cent. In particular funding under the EU Framework Programme continues to grow.

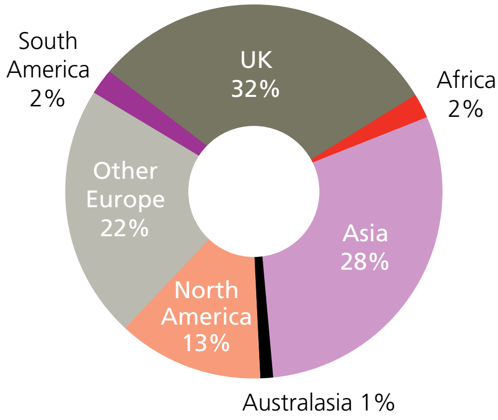
Income from UK Government has fallen since 2010-11. This category includes funding of the International Growth Centre's (IGC) £6 million research programme. Uncertainties earlier on in the year over the possibility of an extension of contract with the funder and changes to operations contributed to a slow-down of activity during the latter part of 2011-12.

The Grantham Institute on Climate Change and the Environment has received funding of just under £1.4 million from the Global Green Growth Institute to research the link between environmental protection, growth and development.

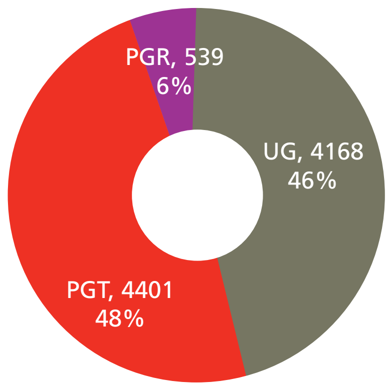
The School's preparations for the Research Excellence Framework (REF 2014) continue apace, coordinated by the REF Strategy Committee. Departments and Centres are reviewing the research outputs of colleagues, with the assistance of external assessors in the majority of Departments. Colleagues are also preparing impact case studies for the REF, to demonstrate how LSE's excellent research has resulted in changes and benefits to the economy, society, culture, public policy, health, the environment or quality of life beyond academia.

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. Steps are continuing to be taken in the context of a research policy to introduce measures to improve the School's performance in winning grants.

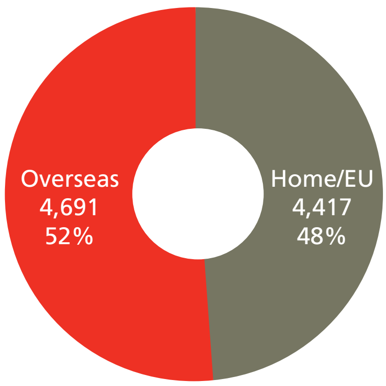
Full time students in 2011-12 by continent

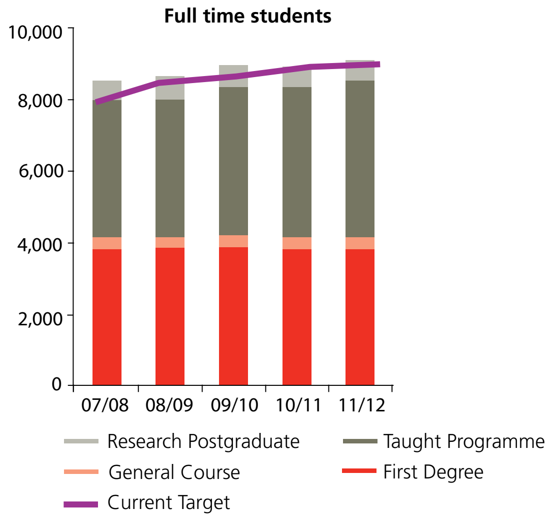


Full time students 2011-12



Full time students 2011-12





Endowment and investment income

Endowment and investment income consists of two elements, income generated by endowments to meet expenditure on bursaries and research and interest earned on the School's cash deposits and gilts. Surplus cash is held in term deposits with a range of banks regulated by the FSA or EEA which have credit ratings of AA- or better. Deposit terms range from one to 12 months and the maximum deposit at any one bank or bank group is normally £20m.

Halls of residence

With over 4,000 bed spaces in 12 halls of residence and University of London halls the School is able to offer a guaranteed place to all first year undergraduate students and, unlike the numerous commercial providers of student accommodation in London, we are able to offer 31 week contracts to undergraduate students making our residences more affordable for them. During vacation periods, some of the halls operate on a commercial basis through a wholly owed trading subsidiary LSE Lets Limited, providing hotel accommodation for a wide range of customers. In 2011-12 this trading activity generated £6.1m of revenue, the surplus from which was used to support student rents.

Income from catering delivered on the Houghton Street site increased by £0.5m. The introduction of direct payment of fee discounts to the School's cashless payment card, "sQuid", has assisted this growth and has started the process of reducing cash transactions on campus.

LSE Enterprise Limited and DUKE CE Limited

LSE Enterprise Ltd is the wholly owned subsidiary company of the School that exists to develop and apply the social science expertise of LSE into commercial situations in order to help answer questions, resolve issues and develop managerial skills. Projects range from the training of overseas civil servants 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, creating opportunities for their research to deliver insight and impact on government and industry alike.

The company delivers its activities through its two trading operations – LSE Executive Education and LSE Consulting – and an office in Spain concentrating on the Spanish market place. In addition, the company has a long standing commercial relationship with Duke Corporate Education in the field of customised corporate executive education.

Expenditure – total

Total expenditure grew by 2.0 per cent (2010-11, 6.5 per cent) with pay costs increasing by 3.6 per cent, of which 0.3 percentage points were attributable to the pay award in August 2011, 1.1 percentage points resulted from promotions, increments, honoraria and similar, 1.2 percentage points were a one-off cost associated with a voluntary leavers scheme and the balance was attributable to the net increase in full time equivalent staff headcount and variations in the overall cost of hourly paid staff.

	2011-12 £m	2010-11 £m	% Change
Staff costs	125.7	121.3	+3.6%
Other operating expenses	84.7	84.7	0.0%
Depreciation	5.5	5.6	-1.8%
Interest payable	3.1	3.2	-3.1%
Total income	219.0	214.8	+2.0%

During 2011-12 the School operated a voluntary leavers scheme which offered career counselling and financial assistance to staff wishing to leave the School. This scheme was designed to ensure that the School had the right skills in the right places to address the challenges it will face in the coming years. The criteria for eligibility was that of mutual benefit and the School expects to cover the scheme's cost from recurrent savings, in addition to generating a range of non-financial benefits. The scheme closed for applications in December 2011 and in total 71 staff were offered and accepted a package.

Other operating expenditure

Other Operating Expenditure was unchanged (2010-11, increased by 12.6 per cent) while the School's interest payable costs remained stable as interest rates did not change between the two years. Depreciation charged on fixed assets fell by 1.8 per cent, attributable to a lower charge on equipment.

Other Operating Expenditure reflects a combination of one off costs in 2010-11 including a major refurbishment of the hot water system in the Old Building, some delays in planned spending in 2011-12 and the downward pressure on expenditure exerted through the work of the Special Economies and Revenue Group in 2010.

Balance sheet and liquidity

During 2011-12 the School's net assets grew by 7.3 per cent (2010-11, 8.6 per cent) to £392.2m, boosted by the receipt of additional endowments of £6.8m. The School's cash deposits grew to £77.6m during 2011-12. The School has ambitious capital investment plans and holds a £59.7m loan facility of which £29.7m is currently drawn. The Finance Committee reviews borrowing capacity on a regular basis and currently considers it adequate to accommodate medium term plans.

Endowments and fundraising

During 2011-12 the School received £6.8m (2010-11, £10.8m) in endowments from a combination of new donors, receipts from existing pledges and £0.5m of HEFCE Matched Funding for voluntary giving.

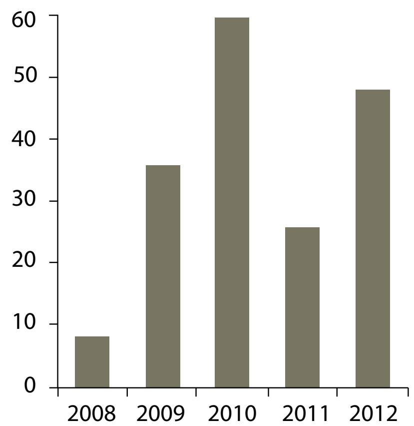
The School's endowment funds are invested in three separate pools. Pool A is managed on a total return basis, Pool B is invested to preserve capital value and to generate an income from yield, and the FER Pool which supports the Foundation for Economic Research is also managed to generate income. The Investment Sub-Committee of Finance Committee oversees the asset allocation and investment strategy of these pools. The committee comprises a number of very experienced investment professionals, academics, a representative of the Students' Union and is advised by an external consultancy. The overall investment return after fees was 3.6 per cent for the year ended 31 July 2012 (2010-11, 9.6 per cent).

Capital expenditure

	2011-12 £m	**2010-11** £m
32 Lincoln's Inn Fields refurbishment/purchase	4.7	37.6
New Student Centre construction costs	6.5	1.9
Tower 1 refurbishment	3.6	1.3
Long leasehold property	3.1	–
Other additions	0.1	0.7
Equipment	0.7	0.8
20 Kingsway freehold acquisition	–	4.7
Total capital expenditure	18.7	47.0

Capital investment during 2011-12 has focused on two main projects, the refurbishment and enlargement of 32 Lincoln's Inn Fields, the former Land Registry building, to a bespoke academic specification for use as a core teaching and research facility and the redevelopment of the St Phillips site as a student facility. Both are proceeding according to budget. At the end of this financial year Council approved the purchase of a long leasehold property on behalf of the endowment trust that provides accommodation for the Director. The existing property will be sold later in the current financial year and the long leasehold property transferred to the trust.

Net cash (£m)
(excluding endowment cash)



Cash flow

There has been a net funds inflow in the year of £22.2m, which leaves the School with a very healthy cash position of £77.6m at the year end.

	2011-12 £m
School cash and gilts – 1 August 2011	55.4
I & E surplus	24.7
Adjustments for non-cash movements included in surplus	4.2
Adjustments for changes in working capital	4.4
Increase in prepaid tuition and hall fees	10.8
Increase in research and trade creditors	5.6
Capital grant receipts	2.3
Capital expenditure	-18.7
Transfer to general endowment	-0.5
Transfer to investment	-10.0
Loan repayments	-1.8
Other	1.2
Net School cash movement	22.2
School cash at 31 July 2012	77.6

Financial sustainability and going concern

Going Concern and Financial Sustainability
The Council has reviewed the financial situation as at 31 July 2012, the financial forecasts for future years and the demand for student places at the School and is satisfied that the School is a going concern.

The Finance Committee has reviewed and reported to Council on the long term (10 year) financial forecasts on a termly basis and the potential financial effects of variations in assumptions used to construct those forecasts. The Finance Committee has reviewed the level of surplus required to fund capital investment and other developments and is satisfied that – retrospectively and prospectively – the School is operating at the required level. The Audit Committee has reviewed and reported to Council on the management's assessment of strategic risks. The Director of the School has reported to each meeting of Council on major developments in higher education and issues facing the School. The Council has received reports on non-financial indicators which are of significance to longer term financial sustainability. On the basis of these assurances, Council is satisfied that the School is operating in a financially sustainable manner.

Indicators of financial sustainability
At its away-day in September 2012 Council, the School's governing body, reviewed a range of financial and non-financial indicators to assure itself about the sustainability of the institution. These "context statistics" included both financial indicators similar to those used by HEFCE in risk evaluation and a wide range of non-financial indicators, including research quality, student demand and student satisfaction data, league table positions, philanthropic donations, staff retention and estates quality measures.

The table below summarises the School's actual and forecast financial metrics and compares them against the sector average and upper quartile.

The data clearly indicates that the School is in an enviably strong financial position, with 2011-12 results better than the comparators on every measure. However, the Council is also mindful that the School's principal competition is increasingly from overseas. Although no direct comparators are available, it is clear that – in common with almost all UK higher education institutions – LSE is comparatively disadvantaged on both public funding and philanthropic endowment.

There are longer term risks to financial sustainability that the School is addressing as it develops its strategic thinking for the future.

First, issues relating to the UK Border Agency and student visas, including the withdrawal of Highly Trusted Sponsor Status from London Metropolitan University in September 2012, may deter some students from applying to study in the UK. Other visa issues add to the difficulty of recruiting staff from overseas.

Secondly, ahead of the 2013 REF census date, competition for staff is particularly acute. While controlling costs, the School needs to ensure that its reward policies, in a UK higher education environment where below inflation pay increases and tax and pension changes have had a negative effect on international competitiveness, are appropriate and attractive in the global labour market for leading academic staff. We will also need to develop innovative solutions to enable staff to live with the high cost of London housing.

Thirdly, the School derives its income from four main sources: government grants, student fees, contracts for research and other work done for clients, and philanthropy. 2012-13 is the first year in which the School receives no direct government funding for teaching the incoming cohort of undergraduates. The value of government funding for research is also in decline.

Fourth, while the School has been successful to some extent in philanthropic development in recent years, it does not enjoy the same level of endowment or income as US comparators, Oxford, Cambridge or some other UK universities. It is therefore appropriate that during 2012-13 the School reviews its investment in development of philanthropic funding to support scholarships/bursaries, research, internationally competitive reward for academic staff and the continuing redevelopment of the estate.

Finally, while some steps have been taken by their trustees to improve the long-term sustainability of the pension schemes – USS and SAUL – that the School's employees participate in, Council remains concerned about the long run sustainability of defined benefit schemes in an era of sustained low investment returns.

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, gilts and 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 normally 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.

		2009-10 actual	2010-11 actual	2011-12 actual	2011-12 forecast	2012-13 forecast	2013-14 forecast	2014-15 forecast
Historical cost surplus as a % of total income	LSE	8.7	9.1	10.1		4.9	3.4	3.0
	Sector mean	3.6	5.7	NA	4.0	2.9	3.3	4.0
	Upper quartile	6.7	8.9	NA	6.4	4.3	5.0	5.8
Net liquidity (total expenditure – depreciation)/days	LSE	173.0	63.0	150.0		50.0	59.0	25.0
	Sector mean	98.0	109.0	NA	104.0	88.0	81.0	79.0
	Upper quartile	128.0	155.0	NA	148.0	120.0	108.0	107.0
External Borrowing (on balance sheet) as a percentage of total income	LSE	15.1	13.5	12.2		10.7	9.9	8.9
	Sector mean	21.4	22.4	NA	23.5	24.4	25.1	24.6
	Upper quartile	33.4	34.6	NA	36.2	34.1	38.4	35.7
Discretionary reserves (excl. pension asset/(liability) as a % of total income	LSE	96.2	102.2	108.2	104.7	107.4	110.5	111.3
	Sector mean	46.1	51.1	NA	55.2	56.4	58.0	80.1
	Upper quartile	59.7	66.3	NA	74.2	78.5	77.4	78.9
Net cash flow as a % of total income	LSE	16.6	5.4	20.4		7.2	6.9	6.8
	Sector mean	8.3	9.2	NA	6.2	5.8	6.5	7.9
	Upper quartile	12.1	13.8	NA	9.8	9.9	10.5	11.3
Staff costs as % of total income	LSE	53.4	51.9	51.6		53.0	54.4	55.2
	Sector mean	54.3	53.0	NA	53.2	53.9	53.5	53.0
	Upper quartile	58.7	56.1	NA	57.0	57.1	56.9	56.5

Source: HEFCE 2010-11 annual assessment of institutional risk.

Public benefit

We have reviewed the activities of the School for the year 2011-12 with regard to obligations under section four of the Charities Act 2011 and the Charity Commission's guidance on public benefit. In this section, we set out some of the many ways in which the School delivers public benefit.

Council members receive no remuneration for their services as charity trustees.

The objectives of the School are set out in our Memorandum and Articles of Association. The public benefit objectives include education and research, but the School's ambitions go significantly beyond the intrinsic benefits of those activities. Since its foundation, LSE has sought to apply teaching and research to improve society, and that goal remains unchanged today, except that the School's global reach is greater than ever.

School supporters deliver expert help beyond price

LSE owes huge thanks to its donors and supporters – but it's not only their financial assistance which makes such a difference.

Just as valuable is the expert help and advice that many of them give. The School benefits enormously from their professional insight into how our finance, governance and links to the outside world can work most effectively.

Their time and advice – which would cost thousands of pounds in a commercial setting – is given free. So why do they do it? We asked three alumni and current LSE governors.

According to Richard Goeltz, who has served on Council for more than 10 years and on the board of many global companies including Aviva and Delta Air Lines, the benefits work both ways. He says: "I believe that by applying the lessons accumulated during my business career I am able to contribute to the LSE's development which is tremendously gratifying both intellectually and emotionally. Dealing with talented, dedicated individuals on Council and the faculty is truly stimulating and rewarding. " Mr Goeltz's many voluntary roles at LSE have included a 10-year stint as deputy chairman of the Finance Committee.

For Ashley Mitchell, an entrepreneur and philanthropist who has worked on LSE development, Audit and Estates Committees among others, the stimulation that LSE can provide was so great it led him back into student life. He explains: "I gained so much inspiration by being able to give back both time and donations to the School that 44 years after graduating, I decided to re-enrol as a Master's Student. It has been an incredible experience and reinforces my conviction as to what a unique place LSE is."

And Cato Stonex, who chairs LSE's Development Committee when he's not overseeing his own fund management business THS Partners, believes that a sense of responsibility is part of the motivation. He says: "I think people do it because they judge that what the School does is a good thing – educating and informing people so they become sensible contributors to the global debate. That won't happen by itself, so if you believe in those aims you have to contribute."

Our beneficiaries

The benefits and beneficiaries of LSE activities include students who benefit from their education at LSE, academia as a whole benefits from research, and broader society that benefits from both; with well-educated graduates contributing to academia, the professions, public service, commerce and industry, and society in many fields, and our research influencing public policy for the good of society.

Widening participation and raising aspiration

At LSE we believe that all school students should have the opportunity to go on to higher education regardless of their background, and that it is our social responsibility to encourage and support them in exploring their options and making decisions about their future. We have always sought to recruit the best students, irrespective of socio-economic background, though we recognise that limited endowment funding constrains our ability to offer "needs blind" admission to overseas students.

LSE works with schools and colleges in the UK and offers a range of activities aimed at pupils, their teachers/advisors, and adult learners. These programmes are free for schools and colleges, being fully funded by LSE and through the generous support of private donors. Initiatives include:

LSE Connect – working with state schools in London to raise awareness of higher education generally; to raise aspirations and motivate students; and to help raise attainment.

Moving On – A collaborative effort by LSE staff and students aimed at easing pupils' transition to secondary school by showing that change happens throughout life and can be a positive experience. It includes activities to promote independence and resilience, includes a campus tour and culminates in a "graduation ceremony".

Student tutoring – LSE students work in schools, under the supervision of teachers, to help pupils with their academic work. The scheme has been running since 1988, and in 2011-12 over 130 LSE students volunteered in 23 local primary and secondary schools across nine London boroughs. Tutoring usually involves students spending two to three hours per week at a school or college for a 10 week period, working with pupils on a one-to-one or small group basis. The scheme benefits both the school children (in Years 6, 8, 10 and 12) and our undergraduate and postgraduate students who gain important work experience and take part in a valuable community programme.

Other examples of our outreach work with schools and colleges include:

- The LSE Mentoring Scheme
- Introduction to Social Sciences for those considering their GCSE choices
- LSE/Generating Genius Summer Schools to promote potential amongst African-Caribbean boys from state secondary schools in London, which includes teaching on Financial Mathematics, Stock Exchange Systems and Leadership
- The Black Achievement Conference
- Aiming for a College Education (ACE) and ACE High Days – preparing for university life
- Social Sciences Workshops
- Summer Schools in Business and Finance, Law and Society, Mathematics and Psychology

- Pathways to Law (London), delivered in partnership with University College London, The College of Law and The Sutton Trust
- The Politics Conference
- The London Taster Course Programme
- LSE Choice – tools for successful application to LSE and other Russell Group universities
- Student shadowing
- Campus tours and visits to schools and colleges
- Open days
- Public lectures
- Advising the Advisors Conference (information and guidance for teachers)
- Routes into Languages
- *LSE FOCUS* newsletter for schools and colleges and
- Email a Student/Alum – first-hand advice from current students and graduates on what to expect at LSE and where an LSE education might lead.

Financial support

In 2012-13 LSE offered over £15m in financial support for its students via a range of scholarships, bursaries and award schemes. Since the introduction of variable fees in 2006, around one-third of LSE's additional fee income has been invested in widening participation and student bursaries. In 2012, with undergraduate fees for Home/EU students rising to £8,500 per annum, 50 per cent of this new income will be spent on undergraduates.

In addition to scholarships and bursaries for undergraduate students, the School was pleased recently to announce the launch of a new flagship studentship scheme that will support outstanding research students by fully funding their postgraduate research at the School. These will be awarded on the basis of outstanding academic achievement and research potential and will be open to all nationalities and subject areas in the social sciences. The scheme includes fees and a maintenance award of £18,000 a year for four years. The investment in these studentships doubles the number of full awards for postgraduate research students, and together with ESRC and AHRC funding, over 100 fully funded awards will be available for 2013 entrants.

Public Events

The School's location in central London and our close links with Westminster, Whitehall and the City help to maintain our reputation as the place where the world comes to debate. Notable speakers at the School in the past year included former US President Bill Clinton, Burmese democracy campaigner and Nobel Peace Prize winner Aung San Suu Kyi, fellow Nobel Laureate Muhammad Yunus "banker to the poorest of the poor", and former cricketer and politician Imran Khan.

The LSE's 2011-12 Public Events programmes included 315 events – a mixture of lectures, debates, discussions and concerts, which were attended by 75,613 people. In order to maximise the opportunity for those outside of London and overseas to benefit from the programme, many were also made available online by video or podcast, with debate being sustained through social networking and syndication via sites such as Twitter, Facebook, RSS, Atom, iTunesU, Soundcloud, YouTube, etc. In 2011-12, there were over 26 million hits of the School's rich media offerings via video and audio podcasts.

In the interests of accessibility, we also provide many public lectures in the form of written transcripts. Examples from the past year include:

- Labour Party Leader Ed Miliband and Home Secretary Theresa May on "Reading the Riots"
- President of the European Council, Herman Van Rompuy on "Lessons for the Future of the Eurozone"
- Rajiv Shah, Administrator of the US Agency for International Development on "Why Human Rights and Democracy are Critical to Overcome Poverty" and
- The Archbishop of Westminster, Vincent Nichols, on "Good Life in Hard Times".

Arts

The School provides a range of art and entertainment programmes which are free of charge and open to all. These include exhibitions, music concerts, online photographic galleries, and our popular annual Literary Festival which this year attracted speakers such as AS Byatt, Jeanette Winterson, Roger Scruton, Jonathan Powell, Michael Rosen and many more.

The LSE has an "open" campus in the heart of London, generously furnished with an interesting range of sculptures and installations for all to enjoy. We want to do what we can to continue to make London a beautiful space for residents and visitors alike and, to that end, have done much in the past year to transform the "public realm". The School's greening programme, improved signage and way-finding scheme, coupled with additional provision for pedestrians and cyclists were recognised by the Royal Institute of British Architects and the Higher Education Design Quality Forum and judges of the "small budget, big impact" scheme.

Volunteering

The School has a strong tradition of social awareness and engaging with the wider community. LSE supports such efforts through its dedicated Volunteer Centre. In 2011-12, thousands of hours were donated and many thousands of pounds were raised for UK registered charities.

Library

The School hosts the largest social sciences library in Europe. In 2011-12, the LSE Council supported a successful bid to acquire the Women's Library – the oldest and most extensive collection of women's history in Europe, and a key part of the UK's national heritage. The collection will become the Women's Library @ LSE, with its own dedicated reading room connected to an exhibition space to ensure its unique identity is maintained. LSE's Library is unusual amongst university libraries in being open to the public and the School looks forward to welcoming visitors to the new Women's Library @ LSE in 2013.

Research

The School prides itself on a policy of engagement and the provision of research which seeks to address the burning issues of the day and influence public policy. The work of many of our research centres and academic departments has direct relevance to our charitable aims and the delivery of public benefit.

A few examples include:

The prevention and relief of poverty: the International Growth Centre, Asia Research Centre, Centre for the Analysis of Social Exclusion; Centre for Economic Performance; and Department of International Development.

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

The advancement of citizenship or community development: Cities, Spatial Economics Research Centre, Centre for the Analysis of Social Exclusion.

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

The advancement of environmental protection or improvement: Grantham Research Centre, Centre for Climate Change Economics and Policy, Department of Geography and the Environment.

The relief of those in need, by reason of youth, age, ill health, disability, financial hardship or other disadvantage: Centre for the Analysis of Social Exclusion, LSE Health and Social Care, Department of International Development, International Growth Centre, Centre for Economic Performance, and the Suntory and Toyota International Centre for Economics and Related Disciplines.

Keeping up the good work

At its awayday in September 2011, the Council approved in principle the establishment of a new long term investment fund to support bursaries and research, and also the establishment of new long term investment of short term "windfall" surpluses and earnings from non-core activities to assure the sustainability of LSE to deliver its charitable objectives with much less reliance on government funding in the future, and these accounts report on the first £10m assigned to the new reserve for long term investment to supplement endowment funds.

Finally, we would like to thank the many generous donors and sponsors, without whom LSE's public benefit activities would not be sustainable at their current scale.

Progress against the environment policy

Environmental management within the School

The School's Environmental Sustainability Policy and progress against its delivery is overseen by the Environmental Leadership Group (formerly know as the Environmental Management Review Group) which meets annually to advise the Director on policy and practice in relation to environmental sustainability.

Activities to deliver progress are directed by the Environmental Management Team which meets each term.

Actual delivery against the policy is achieved through a number of Environmental Management Working Groups incorporating staff and students.

Environmental Management System/ISO 14001

The School has developed an Environmental Management System (EMS) to facilitate the delivery of the Environmental Sustainability Policy.

The School was recommended for ISO 14001 (the International Environmental Standard) and Eco Campus Platinum in July 2012.

Staff engagement, a critical element of the EMS, is delivered through the "Green Impact" programme. In 2011-12, 46 teams participated, a 10 per cent increase from 2010-11 with over 120 staff and students involved including 11 volunteer auditors receiving training. Achievements of the Green Impact teams were celebrated at an annual sustainability event.

Energy and carbon

Performance review – the CRC Energy Efficiency Scheme is a mandatory carbon tax that came into force in April 2010. To comply with the scheme, the LSE must report and pay for each tonne of CO_2 it emits. The projected annual CRC emissions were 13,814 tCO_2 and cost the School £165,768.

The Carbon Management Plan states that total emissions for the baseline 2005-06 academic year were 14,484 tCO_2e. Our predicted emissions for 2011-12 represent a 4 per cent decrease against last year's carbon footprint and would be below our 2005-06 baseline.

Emissions increased between 2005 to 2010 which can be attributed to an increase in students numbers and new buildings coming online (such as the New Academic Building in 2008). The adoption of the Carbon Management Plan in 2011 and the subsequent capital investments in energy efficiency projects planned for this financial year should lead to a reduction in carbon emissions of approximately 400 tCO_2e.

Enhancement projects – the programme of works started this year will decrease emissions. The reduction target is 54 per cent by 2020, compared to the 2005-06 baseline.

Eight solar PV systems have been successfully installed across the LSE estate (NAB, Carr Saunders, High Holborn and Sports Ground, St Clement's and the Library). The PVs installed should save approximately 41 tCO_2e per annum.

A 15 kW Combined Heat and Power (CHP) engine was installed in Old Building in April 2012, in parallel with voltage optimisation technology. These two systems are expected to improve the quality and reliability of the electricity supply to the building, whilst saving approximately 40 tCO_2e per annum.

The Estates Division is currently tendering for the upgrade of inefficient and poor light fittings in a number of academic buildings, where the payback period does not exceed 15 years. This project is expected to provide a 212 tCO_2e annual reduction and energy cost savings.

A survey has been conducted across all residences to identify where solar thermal water-heating systems would be viable and is currently under review by the Director of Capital Development.

Student engagement – "Go Green Week" took place from 6-10 February 2012 with 14 events taking place. As part of the "Student Switch-Off" behaviour-change campaign, 608 student energy champions ("Eco-Power Rangers") were recruited in halls, saving 6 per cent of electricity usage from a 2005-08 baseline which equates to a £15,499 saving.

Waste

The School diverted 93 per cent of its waste from landfill in 2011-12.

71 per cent of campus waste was recycled in 2011-12, a significant improvement over 54 per cent in 2010-11.

38 per cent of residences waste was recycled in 2010-11 compared to 32 per cent in 2010-11. This will improve as communal recycling stations have been installed across residences in summer 2012.

The campus furniture reuse scheme facilitated the reuse of 366 items from across the School making an approximate saving of £31,000 in 2011-12.

Students halls reuse events ("ReLove") facilitated the reuse of over 6 tonnes of items at the end of Lent Term 2012.

1,000 light fittings and other key items including heaters were saved from the refurbishment of 32 Lincoln's Inn Fields and are currently being deployed across campus, saving approximately £100,000.

Water
We are currently working with Thames Water to develop a robust baseline from which to work and achieve reductions. The School has a number of water saving measures in place, ranging from waterless urinals and auto switch off taps to controlled flow showers.

Construction and refurbishment
The New Students' Centre achieved the BREEAM "Outstanding" rating (the highest possible) for its low-impact design. It is only the 17th building worldwide, and the first higher education building in London, to receive the award.

Site Waste Management Plans are used by all contractors to divert construction waste from landfill. This facilitated 993 tonnes of waste being recycled from the demolition of the St Philips Building.

Procurement
An LSE Sustainable Procurement Policy has been drafted by the Head of Procurement, and a sustainable procurement strategy is currently being developed.

A sustainable procurement pilot for 1,800 chairs has been piloted this year and we will be working to extend this practice to other large procurement activities.

A "Selling to LSE" guide has been produced to support all staff across the School to make more sustainable procurement decisions.

Emissions and discharges
A baseline audit of all the School's emissions and discharges is currently being conducted. This does not refer to greenhouse gas emissions, but air pollution from solvents and escaped refrigerant gas, and discharges into drains of cleaning fluids and chemicals used to disinfect water tanks.

Biodiversity and urban landscape
A preparatory habitat survey has been conducted at the Sports Ground. This has been used to incorporate biodiversity projects carried out by Sports Ground staff into School sustainability strategy. The next step is to conduct a full biodiversity survey of the School, which will identify potential areas for development.

A green wall has been created on the side of the Old Building and a green roof has been installed on top of the Plaza Cafe as part of the "Campus Greening Programme".

A bee hive was installed on the roof of Connaught House, and 15 additional planters have been supplied to the roof top gardens.

41 members of staff have signed up to volunteer on the rooftop gardens, which were initially funded by Capital Growth, a Mayor of London initiative. 648 people follow "@LSE_Roof_Gardens" on Twitter at the most recent count – over a 100 per cent increase on last year.

Transport
A School-wide travel survey is conducted every three years. The last was published in February 2010. The next survey will begin in November 2012 with results to be published in March 2013. The School is almost unique in having no staff parking places and a negligible proportion of employees using cars as their main method of home to work travel.

Education for sustainable development
Catering have held numerous sustainable food awareness campaigns under the banner of "Feel Good Food Days", and increased the amount of sustainable foods served. LSE is a signatory of "Sustainable Fish City", which promotes sustainable fish consumption.

All staff and students have received the termly "Green News" email bulletin, which updates them on sustainability issues at the School.

Sustainability behaviours are being incorporated into the School's Knowledge Skills and Behaviour (KSB) Framework to support staff in delivering the environmental policy.

HR have launched an online People Management Toolkit to all staff on Grade 7 and above, which includes a range of Sustainability toolkits and hints. This will support managers to implement the Sustainability Policy, by providing them with relevant information through their training and personal development.

All new staff have received sustainability training as part of the "Flying Start" induction course.

A programme of training is being rolled out to appropriate staff in the proper use of the School's waste disposal system.

Community involvement
The Sustainability Project Fund, created by taxing bottled water on campus funded the student led Plaza café green roof and a behaviour change project which we will see delivered in the coming year. The fund currently stands at £14,382. This scheme was highly commended in the 2012 Green Gown Awards.

The School is working as part of Club 200, a collaborative approach to help Southwark's largest emitters reduce their CO_2 levels and improve environmental performance.

Employment

The School promotes equality of opportunity for staff from all social, cultural and economic backgrounds and has policies and procedures in place to ensure freedom from discrimination on the basis of disability, gender, race, age, religion or belief, and sexual orientation, or personal circumstances. Equality and diversity are integral to the School's priorities and objectives. The School supports inter-faith and inter-cultural dialogue and understanding and engages all students in playing a full and active role in wider engagement with society.

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

Directors

The directors of the School are shown at page 48.

Auditors

The School's current auditors are PricewaterhouseCoopers UK LLP.

Disclosure of information to auditors

At the date of making this report each of the company's directors, as set out on page 48, 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 28 November 2012.

Professor Craig Calhoun
Director (from 1 September 2012)

Accounting policies

The School is an exempt charity within the meaning of Part 3 of the Charities Act 2011 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 2010. Accordingly, the School is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes.

The School receives partial exemption in respect of Value Added Tax, 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 following accounting policies have been applied consistently across the financial statements set out on pages 18 to 37.

(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. The consolidated financial statements include the School and all its subsidiaries for the financial year to 31 July. Intra-group sales and profits are eliminated fully on consolidation.

(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.

The consolidated income and expenditure account includes the School's share of the income and expenditure of associated undertakings and joint ventures, while the consolidated balance sheet includes investment in associated undertakings and joint ventures at the School's share of their net tangible assets.

Associated undertakings are those in which the School has a significant, but not dominant, influence over their commercial and financial policy decisions. Joint ventures represent investments in which the School has joint control.

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 of teaching and research, and also includes restricted income to the extent that expenditure has been incurred.

(e) Income recognition

Funding Council 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.

Recurrent income from grants, contracts and other services rendered are 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 depreciation is charged on the asset for which the grant was awarded.

Income from research grants and contracts and other services rendered is included to the extent of the expenditure incurred during the year, together with any related contributions towards overhead costs.

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.

The School's share of surplus from the participation in the University of London International Programme is recognised on a receipts basis.

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 or decreases in value arising on the revaluation or disposal of endowment assets are 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 sheet at historical cost.

The Finance Committee have reviewed the useful 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 five 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 period of the lease.

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

The cost of 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. No impairment has been charged to the 2011-12 accounts.

(g) Heritage Assets

Works of art and other valuable artefacts that generate future value through their cultural or scientific significance are capitalised and recognised in the balance sheets at cost of the acquisition.

(h) 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.

(i) Operating leases

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

(j) Stock

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

(k) Investments

Listed investments are stated at their market value on the balance sheet date. Unlisted investments, including investment in subsidiary companies, are stated at the lower of cost or valuation. Investments that are held to maturity are stated at the lower of cost or present value of estimated future cash flows. Investments held on behalf of endowment funds are included in endowment assets in the balance sheets at market value.

(l) 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.

(m) 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.

(n) 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.

(o) 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 during the year.

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.

(p) 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 tangible 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.

(q) Financial instruments

The School uses derivative financial instruments called interest rate swaps to reduce exposure to interest rate movements. Such 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.

(r) 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.

(s) Agency arrangement

Funds the School receives and disburses as paying agent on behalf of the Funding Council or other body, where the School has no beneficial interest in the funds, are excluded from the income and expenditure account.

Consolidated income and expenditure account

Company registration no 70527

	NOTES	2011-12 £'000	2010-11 £'000
INCOME			
Funding Council grants	1	27,962	29,652
Tuition fees and education contracts	2	126,746	114,705
Research grants and contracts	3	22,696	24,068
Other income	4	60,288	59,237
Endowment and investment income	5	6,043	6,041
Total income		243,735	233,703
EXPENDITURE			
Staff costs	6	125,768	121,338
Other operating expenses	7	84,682	84,745
Depreciation		5,484	5,600
Interest payable	8	3,092	3,160
Total expenditure		219,026	214,843
Surplus on continuing operations after depreciation of tangible fixed assets at cost and before exceptional items and tax		24,709	18,860
Sale of fixed assets	9	–	2,299
Surplus on continuing operations after depreciation of tangible fixed assets at cost and before tax		24,709	21,159
Surplus on continuing operations after depreciation of tangible fixed assets at cost and before tax		24,709	21,159
Surplus for the year transferred to accumulated income in endowment funds	20	(500)	(1,216)
Surplus for the year retained within general reserve	21	24,209	19,943

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 £24,209,000, a surplus of £24,284,000 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

	NOTES	**2011-12** £'000	**2010-11** £'000
Surplus on continuing operations after depreciation of tangible fixed assets at cost and tax		24,709	21,159
Net addition of endowment	20	6,754	10,755
Endowment withdrawn	20	(6,463)	(5,838)
Appreciation of endowment asset investments	20	691	2,954
Total recognised gains and losses relating to the year		25,691	29,030

Reconciliation of movement in reserves and endowments		
Opening reserves and endowments	273,576	244,546
Total recognised gains and losses for the year	25,691	29,030
Closing reserves and endowments	299,267	273,576

Balance sheets

	NOTES	Group 2012 £'000	School 2012 £'000	Group 2011 £'000	School 2011 £'000
Fixed assets					
Tangible assets	10	301,967	301,458	288,749	288,223
Investments in subsidiary undertakings	11	–	150	–	150
Investments	12	110	–	19,314	19,221
		302,077	301,608	308,063	307,594
Endowment assets	13	83,199	83,199	81,717	81,717
Current assets					
Stock		112	112	88	88
Debtors	14	18,849	20,928	24,681	25,844
Cash at bank and in hand	15	77,614	75,042	21,091	18,636
Investments and bank deposits	15	10,000	10,000	15,000	15,000
		106,575	106,082	60,860	59,568
Creditors: amounts falling due within one year	16	(69,737)	(68,806)	(53,464)	(51,809)
Net current assets		36,838	37,276	7,396	7,759
Total assets less current liabilities		422,114	422,083	397,176	397,070
Creditors: amounts falling due after more than one year	16	(29,737)	(29,737)	(31,410)	(31,410)
Pension provision	18	(145)	(145)	(181)	(181)
Net Assets		392,232	392,201	365,585	365,479
Deferred capital grants	19	92,965	92,965	92,009	92,009
Endowments					
Expendable	20	47,541	47,541	46,951	46,951
Permanent	20	35,658	35,658	34,766	34,766
		83,199	83,199	81,717	81,717
Reserves					
General reserve	21	216,068	216,037	191,859	191,753
		216,068	216,037	191,859	191,753
Total		392,232	392,201	365,585	365,479

The financial statements on pages 18 to 38 were approved by the Council on 28 November 2012 and were signed on its behalf by:

Peter Sutherland, KCMG
Chair of Court and Council

Professor Craig Calhoun
Director

Consolidated cash flow statement

	NOTES	2011-12 £'000	2010-11 £'000
Cash flow from operating activities	22	49,731	8,039
Returns on investments and servicing of finance			
Income received from endowments		3,373	2,064
Other interest received		254	861
Interest paid		(3,092)	(3,160)
		535	(235)
Capital expenditure and financial investment			
Payments to acquire fixed assets		(18,702)	(46,958)
Payments to acquire investment assets		(10,017)	(19,611)
Payment to acquire endowment assets		(27,188)	(13,241)
Proceeds from sales of fixed assets		–	2,360
Proceeds from sale of investment assets		18,262	–
Proceeds from sale of endowment assets		14,776	7,483
Deferred capital grant received		2,266	663
Endowment transfer		(5,937)	6,757
		(26,540)	(62,547)
Management of liquid resources		35,000	60,000
Financing		(1,800)	(1,800)
Increase in cash in the period		56,926	3,457
Reconciliation of net cash flow to movements in net funds/debt			
Increase in cash in the period		56,926	3,457
Cash outflow from liquid resources		(35,000)	(60,000)
Changes in net debt resulting from cash flows		1,800	1,800
Movements in net debt in period		23,726	(54,743)
Net funds at year start		24,188	78,931
Net funds at year end	23	47,914	24,188

Notes to the accounts

1 FUNDING COUNCIL GRANTS	NOTES	2011-12 £'000	2010-11 £'000
From the HEFCE			
Block recurrent		25,061	24,870
Higher Education Innovations Fund		724	1,677
Matched funding for voluntary giving		500	1,216
Other specific grants		839	1,165
Deferred capital grants released in year	19	611	611
Total HEFCE		27,735	29,539
Joint Information Systems Committee and other grants		227	113
		27,962	29,652

2 TUITION FEES AND EDUCATION CONTRACTS			
Tuition fees :			
Home/EU students		38,740	33,080
Overseas students		76,578	70,671
TRIUM MBA		1,905	1,737
Short courses		9,280	9,005
Examination and other fees		243	212
		126,746	114,705

3 RESEARCH GRANTS AND CONTRACTS			
Research councils		4,972	5,909
Government departments		4,255	5,193
Charities		1,190	798
European Commission and other EU based funders		6,508	5,956
Other outside bodies		3,635	3,490
Specific endowments	5	2,136	2,722
		22,696	24,068

4 OTHER INCOME	NOTES	2011-12 £'000	2010-11 £'000
Residences and catering		31,356	28,869
Academic department income attributable to other activities		2,993	2,733
Release of deferred capital donations	19	593	593
University of London International Programmes (ULIP)		7,512	7,077
Consultancy services and executive education		6,243	5,582
Other services rendered		8,436	10,387
VAT recovery		1,235	2,063
Staff and student facilities		583	668
Sundry		1,337	1,265
		60,288	59,237

5 ENDOWMENT AND INVESTMENT INCOME			
Income from expendable endowments		6,950	6,736
Income from permanent endowments		975	1,166
Income from endowments	20	7,925	7,902
Research grants and contracts funded by endowments (included in note 3)			
Expendable endowments		(1,667)	(2,131)
Permanent endowments		(469)	(591)
	3	(2,136)	(2,722)
Investment of general funds			
Interest and dividends receivable		254	861
		6,043	6,041

6 STAFF COSTS	2011-12 £'000	2010-11 £'000
Total staff costs for the year were:		
Wages and salaries	105,421	101,276
Social security costs	8,673	8,280
Other pension costs	11,674	11,782
	125,768	121,338

The average monthly number of persons employed by the School during the year expressed as full-time equivalents was:	2011-12 Number	2010-11 Number
Research and Teaching	963	932
Operational Services	1,167	1,192
Medical Services	–	1
Subsidiaries	19	18
	2,149	2,143

HIGHER PAID EMPLOYEES AND REMUNERATION	2011-12 £'000	2010-11 £'000
Directors		
Emoluments (2011/12 – nine Directors; 2010/11 – nine Directors)	952	1,015
Emoluments, as Director, of those who served during the year as Director of the School were:		
Director – Professor Judith Rees		
Salary	270	42
Benefits in kind	–	–
	270	42
Employer's pension contributions	–	–
	270	42
Director – Howard Davies		
Salary	–	184
Benefits in kind	–	5
	–	189
Employer's pension contributions	–	29
	–	218

Howard Davies left the School on 30 April 2011. Professor Judith Rees was appointed as the Director from 1 May 2011.

Salaries are stated at gross, before deductions of pension contributions made under the salary sacrifice scheme. All directors making pension contributions joined the pension 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:

6 STAFF COST (CON'T)	2011-12 numbers	2010-11 numbers
£100,001 – £110,000	48	51
£110,001 – £120,000	18	17
£120,001 – £130,000	14	6
£130,001 – £140,000	10	11
£140,001 – £150,000	11	11
£150,001 – £160,000	4	5
£160,001 – £170,000	5	5
£170,001 – £180,000	5	3
£180,001 – £190,000	3	5
£190,001 – £200,000	1	1
£200,001 – £210,000	2	2
£210,001 – £220,000	1	–
£220,001 – £230,000	–	–
£230,001 – £240,000	1	–
	123	117

Total remuneration includes salaries and other additional payments relating to Summer School, TRIUM and consultancy and executive education delivered via LSE Enterprise Limited. 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 to higher paid staff total £nil (2010-11 – £nil). The School paid £1.9m in compensation under a voluntary leavers scheme in 2011-12.

7 OTHER OPERATING EXPENSES	2011-12 £'000	2010-11 £'000
Academic departments	9,331	8,519
Library and IT Services	7,926	8,248
Research grants and contracts	6,171	7,216
Scholarships and general educational expenditure	14,109	13,475
Premises	13,134	14,000
Administration and central services	3,823	3,681
Staff and student facilities	1,771	1,804
Residences and Catering	17,472	17,129
Other services rendered	6,255	4,580
Consultancy services and executive education	2,779	4,479
Alumni development and fundraising	894	917
Miscellaneous	1,017	697
	84,682	84,745
Administration and central services expenses include:		
Fees payable to the School's auditor for the audit of the annual accounts	8	57
Fees payable to the School's auditor and its associates for other services:		
Audit of the annual accounts of the School's subsidiaries	6	8
Other services relating to taxation	10	17
All other services	96	10
	120	92

8 INTEREST PAYABLE		
Loans not wholly repayable within five years	3,092	3,160
	3,092	3,160

9 EXCEPTIONAL ITEM		
Profit on sale of Anson and Carleton Road Residences	–	2,299
	–	2,299

The School entered an agreement to sell Anson and Carleton Road Hall of Residence in July 2011. The buyer assumed property risks from the date of the agreement.

10 TANGIBLE FIXED ASSETS	LAND AND BUILDINGS		EQUIPMENT	ASSETS UNDER CONSTRUCTION	TOTAL
	£'000	£'000	£'000	£'000	£'000
	FREEHOLD	LONG LEASEHOLD			
Group					
COST					
As at 1 August 2011	291,466	24,160	11,432	7,128	334,186
Additions in Year	–	3,102	677	14,923	18,702
As at 31 July 2012	291,466	27,262	12,109	22,051	352,888
DEPRECIATION					
As at 1 August 2011	32,069	4,899	8,469	–	45,437
Charge for Year	4,259	536	689	–	5,484
As at 31 July 2012	36,328	5,435	9,158	–	50,921
NET BOOK VALUE					
As at 1 August 2011	259,397	19,261	2,963	7,128	288,749
As at 31 July 2012	255,138	21,827	2,951	22,051	301,967
School					
COST					
As at 1 August 2011	291,466	23,510	11,180	7,128	333,284
Additions in Year	–	3,102	677	14,923	18,702
As at 31 July 2012	291,466	26,612	11,857	22,051	351,986
DEPRECIATION					
As at 1 August 2011	32,069	4,780	8,212	–	45,061
Charge for Year	4,259	523	685	–	5,467
As at 31 July 2012	36,328	5,303	8,897	–	50,528
NET BOOK VALUE					
As at 1 August 2011	259,397	18,730	2,968	7,128	288,223
As at 31 July 2012	255,138	21,309	2,960	22,051	301,458

Group and School

Fixed assets acquired by the School are funded from various sources including HEFCE 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 HEFCE Exchequer Interests are disclosed in Note 19.

The School has manuscripts of historic value stored in the Library archive. These assets are not included within the tangible fixed assets and no market value is estimated. It is not practical to determine the market value of the heritage assets. The cost associated with the custodianship would materially reduce their market value. The Library's contents are insured in 2012-13 for £108.7m.

11 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS	Group 2012 £'000	School 2012 £'000	Group 2011 £'000	School 2011 £'000
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%	2
LSE Asia Limited	Dormant	100%	2

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 included on the face of the income and expenditure account.

12 INVESTMENTS	Group 2012 £'000	School 2012 £'000	Group 2011 £'000	School 2011 £'000
Joint ventures	110	–	93	–
Gilts	–	–	19,221	19,221
	110	–	19,314	19,221

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 2011-12 but the 2010-11 accounts show the School's share of turnover to be £54,000 and operating surplus to be £3,700. The 2010-11 results have been included on the income and expenditure account.

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.

13 ENDOWMENT ASSETS – Group and School	2012 £'000	2011 £'000
Analysis of closing balance		
UK equities	31,443	24,708
Overseas equities	10,114	12,027
Gilts	–	134
UK corporate bonds	21,868	18,416
Other	8	18
Money market funds	1,763	6,784
Invested	65,196	62,087
Share of freehold property	33	33
Cash on deposit	17,970	19,597
	83,199	81,717

The 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.

14 DEBTORS	**Group 2012** £'000	**School 2012** £'000	**Group 2011** £'000	**School 2011** £'000
Amounts falling due within one year:				
Trade debtors	7,338	5,627	6,229	4,514
Accrued research income	2,967	2,967	4,533	4,533
Amounts due from subsidiary undertakings	–	3,805	–	2,894
Staff loans for housing	79	79	36	36
Other debtors	6,168	6,153	9,754	9,740
Prepayments and accrued income	2,027	2,027	3,884	3,882
	18,579	20,658	24,436	25,599
Amounts falling due after more than one year:				
Trade debtors	46	46	35	35
Staff loans for housing	224	224	210	210
	270	270	245	245
TOTAL	18,849	20,928	24,681	25,844

15 CASH AT BANK AND INVESTMENTS	NOTE				
Cash at bank		77,614	75,042	21,091	18,636
Investments	21	10,000	10,000	–	–
Fixed term deposits		–	–	15,000	15,000
		87,614	85,042	36,091	33,636

The Council has agreed to set aside £10m (2010-11 – £nil) of the general reserve for long term investment to supplement endowment funds.

16 CREDITORS	Group 2012 £'000	School 2012 £'000	Group 2011 £'000	School 2011 £'000
Amounts falling due within one year:				
Bank loans	1,800	1,800	1,800	1,800
Trade creditors	6,660	6,567	5,384	5,218
Research creditors and prepayments	20,098	20,098	17,679	17,679
Short courses	150	150	200	200
Amounts due to subsidiary undertakings	–	1,373	–	1,352
Taxation and social security	3,081	3,081	2,940	2,940
Other creditors	4,120	4,120	2,998	2,998
Accruals and deferred income	33,828	31,617	22,463	19,622
	69,737	68,806	53,464	51,809
Amounts falling due after one year:				
Bank loans	27,900	27,900	29,700	29,700
Deferred VAT payments	1,837	1,837	1,710	1,710
	29,737	29,737	31,410	31,410

17 BORROWINGS	Group 2012 £'000	School 2012 £'000	Group 2011 £'000	School 2011 £'000
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	20,700	20,700	22,500	22,500
	29,700	29,700	31,500	31,500

The School has arranged a £75m amortising loan repayable by December 2028 secured over three properties. £29.7m was outstanding with a residual facility of £30m remaining undrawn at the balance sheet date.

The School has entered into interest rate swap agreements with a nominal value totalling £65.0m. 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 £25.4m (31 July 2011 – £14.5m) at the balance sheet date.

18 PENSION SUPPLEMENTATION PROVISION	£'000
Group and School	
As at 1 August 2011	181
Transferred to income and expenditure account	(36)
As at 31 July 2012	145

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 12, "Provisions, contingent liabilities and contingent assets".

19 DEFERRED CAPITAL GRANTS	NOTES	Funding council £'000	Other grants and donations £'000	Total £'000
Group and School				
As at 1 August 2011		54,901	37,108	92,009
Cash received		1,280	986	2,266
Released to income and expenditure account – School	1 & 4	(611)	(593)	(1,204)
Released to income and expenditure account – Residence		(18)	(88)	(106)
As at 31 July 2012		55,552	37,413	92,965

The deferred capital grants include indexed exchequer interests of £58.2 million at the balance sheet date.

20 ENDOWMENTS	NOTES	Restricted expendable £'000	Restricted permanent £'000	Total £'000
Group and School				
Capital value		44,063	32,252	76,315
Accumulated income		2,888	2,514	5,402
At 1 August 2011		46,951	34,766	81,717
Net additions		6,242	512	6,754
Appreciation of endowment asset investments		31	660	691
Investment income		767	695	1,462
Expenditure for the year	5	(6,950)	(975)	(7,925)
Transfer		500	–	500
At 31 July 2012		47,541	35,658	83,199
Represented by:				
Capital value		43,289	33,961	77,250
Accumulated income		4,252	1,697	5,949
		47,541	35,658	83,199

21 MOVEMENTS ON GENERAL RESERVE	Group 2012 £'000	School 2012 £'000	Group 2011 £'000	School 2011 £'000
As at 1 August 2011	191,859	191,753	171,916	171,600
Surplus for the year	24,209	24,284	19,943	20,153
As at 31 July 2012	216,068	216,037	191,859	191,753

The Council has agreed to set aside £10m (2010-11 – £nil) of the general reserve for long term investment to supplement endowment funds.

22 RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES	2012 £'000	2011 £'000
Surplus of income over expenditure for the year on total activity before tax	24,709	21,159
Depreciation	5,484	5,600
Deferred capital grants released to income	(1,310)	(1,337)
Endowment and investment income	(6,043)	(6,041)
Interest payable	3,092	3,201
Increase in stocks	(24)	(2)
Decrease/(increase) in debtors	5,832	(3,839)
Increase/(decrease) in creditors	16,400	(10,315)
Decrease in provisions	(36)	(12)
Endowment transfer	1,627	(375)
Net cash inflow from operating activities	49,731	8,039

23 ANALYSIS OF CHANGES IN NET DEBT	At 1 August 2011 £'000	Cash flows £'000	Other changes £'000	At 31 July 2012 £'000
Cash at bank and in hand	21,091	56,523	–	77,614
Endowment cash	19,597	(1,627)	–	17,970
Less: Cash at bank within endowment cash	(20,000)	2,030	–	(17,970)
	20,688	56,926	–	77,614
Fixed term deposits	35,000	(35,000)	–	–
Debt due within one year	(1,800)	1,800	(1,800)	(1,800)
Debt due after one year	(29,700)	–	1,800	(27,900)
	24,188	23,726	–	47,914

24 PENSION COMMITMENTS

	USS		SAUL	
Pension Scheme	**2012**	**2011**	**2012**	**2011**
Active members	1,272	1,228	517	520
Contribution rate made by School	16%	16%	13%	13%
Contribution made (in £'000)	10,566	10,392	1,575	1,607

(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 fund administered by the trustee, Universities Superannuation Scheme Limited.

The appointment of directors to the board of the trustee is determined by the trustee 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; and a minimum of two and a maximum of four are co-opted directors appointment 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 2011. This was the second valuation for USS under the 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 regular reviews of the funding levels. In particular, he 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 2012 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 (ie, 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 6.1 per cent per annum, salary increases would be 4.4 per cent per annum (with short-term general pay growth at 3.65 per cent per annum and an additional allowance 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 3.4 per cent per annum for three years following the valuation then 2.6 per cent per annum thereafter.

Standard mortality tables were used as follows:

Male members' mortality	S1NA ["light"] YoB tables – No age rating
Female members' mortality	S1NA ["light"] YoB tables – rated down 1 year

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 CMI 2009 projections with a 1.25 per cent per annum long term rate were also adopted. The assumed life expectations on retirement at age 65 are:

Males (females) currently aged 65	23.7 (25.6) years
Males (females) currently aged 45	25.5 (27.6) years

At the valuation date, the value of the assets of the scheme was £32,433.5m and the value of the scheme's technical provisions was £35,343.7m indicating a shortfall of £2,910.2m. The assets therefore were sufficient to cover 92 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 68 per cent. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 93 per cent funded; on a buy-out basis (ie assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 57 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 5.5 per cent per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82 per cent.

As part of this valuation, the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. The next formal triennial actuarial valuation is as at 31 March 2014. If experience up to that date is in line with the assumptions made for this current actuarial valuation and contributions are paid at the determined rates or amounts, the shortfall of 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95 per cent. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

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 but the allowance for promotional salary increases was not as high. 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.

As at the valuation date the Scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16 per cent of Salaries.

Following UK government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Prices Index measure of the price inflation. Historically these increases had been based on the Retail Prices Index measure of price inflation.

Since the previous valuation as at 31 March 2008 there have been a number of changes to the benefits provided by the scheme although these became effective from October 2011. These include:

New Entrants Other than in specific, limited circumstances, new entrants are now provided on a Career Revalued Benefits (CRB) basis rather than a Final Salary (FS) basis.

Normal pension age The Normal pension age was increased for future service and new entrants, to age 65.

Flexible Retirement Flexible retirement options were introduced.

Member contributions increased Contributions were uplifted to 7.5 per cent per annum and 6.5 per cent per annum for FS Section members and CRB Section members respectively.

Cost sharing If the total contribution level exceeds 23.5 per cent of salaries per annum, the employers will pay 65 per cent of the excess
over 23.5 per cent and members would pay the remaining 35 per cent to the fund as additional contributions.

Pension increase cap For service derived after 30 September 2011, USS will match increases in official pensions for the first 5 per cent. If official pensions increase by more than 5 per cent then USS will pay half of the difference up to a maximum increase of 10 per cent.

Since 31 March 2011 global investment markets have continued to fluctuate and following its peak in September 2011 inflation has declined rapidly towards the year end, although the market's assessment of inflation has remained reasonably constant. The actuary has estimated that the funding level as at 31 March 2012 under the scheme specific funding regime had fallen from 92 per cent to 77 per cent. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions. These are sighted as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2012 estimation.

On the FRS17 basis, using a AA bond discount rate of 4.9 per cent per annum based on spot yields, the actuary calculated that the funding level at 31 March 2012 was 74 per cent. An estimate of the funding level measured on a historic gilts basis at that date was approximately 56 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 contribution 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 actuarial valuation are set out below:

Assumption	Change in assumption	Impact on shortfall
Investment return	Decrease by 0.25%	Increase by £1.6 billion
The gap between RPI and CPI	Decrease by 0.25%	Increase by £1 billion
Rate of salary growth	Increase by 0.25%	Increase by £0.6 billion
Members live longer than assumed	1 year longer	Increase by £0.8 billion
Equity markets in isolation	Fall by 25%	Increase by £4.6 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 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 per cent thereby minimising 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.

At 31 March 2012, USS had over 145,000 active members and the school had – active members participating in the scheme. The total pension cost for LSE was £10.6m (2011: £10.4m). The contribution rate payable by LSE was 16 per cent of pensionable salaries.

(ii) SAUL
The School participates in a centralised defined benefit scheme for all qualified employees with the assets held in separate Trustee-administered funds. The School has 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.

SAUL is subject to triennial valuations by professionally qualified and independent actuaries. The last available valuation was carried out as at 31 March 2011 using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The main assumptions used to assess the technical provisions were:

	31 March 2011
Discount rate – pre-retirement – post-retirement	 6.80% p.a. 4.70% p.a.
General* Salary Increases	3.75% p.a. until 31 March 2014, 4.50% p.a. thereafter
Retail Prices Index inflation ("RPI")	3.50% p.a.
Consumer Price Index Inflation ("CPI")	2.80% p.a.
Pension Increases in payment (excess over GMP)	2.80% p.a.
Mortality – base table	SAPS Normal (year of birth) tables with an age rating of +0.5 years for males and -0.4 years for females.
Mortality – future improvements	Future improvements in line with CMI 2010 projections with a long term trend rate of 1.25% p.a.

* an additional allowance is made for promotional Salary increases.

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 £1,506m representing 95 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. The above rates will be reviewed when the results of the next formal valuation (as at 31 March 2014) are known.

A comparison of SAUL's assets and liabilities calculated using assumptions consistent with FRS17 revealed SAUL to be in deficit at the last formal valuation date (31 March 2011). As part of this valuation, the Trustee and Employer have agreed that no additional contributions will be required to eliminate the current shortfall.

The more material changes (the introduction of a Career Average Revalued Earnings, or "CARE", benefit structure) to SAUL's benefit structure will apply from 1 July 2012. As a consequence, the cost of benefit accrual is expected to fall as existing final salary members are replaced by new members joining the CARE structure. This will allow an increasing proportion of the expected asset return to be used to eliminate the funding shortfall. Based on conditions as at 31 March 2011, the shortfall is expected to be eliminated by 31 March 2021, which is 10 years from the valuation date.

(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.

25 CAPITAL COMMITMENTS	Group 2012 £'000	School 2012 £'000	Group 2011 £'000	School 2011 £'000
New Students Centre	20,239	20,239	32,580	32,580
32 Lincoln's Inn Field	10,529	10,529	–	–
Tower 1 and 2 reception	625	625	–	–
Tower 1 refurbishment	–	–	3,960	3,960
Wayfinding	–	–	141	141
	31,393	31,393	36,681	36,681

Capital commitments reflect the cost to complete the projects.

26 OPERATING LEASES

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

	Group 2012 £'000	School 2012 £'000	Group 2011 £'000	School 2011 £'000
Within one year	6,611	6,611	6,367	6,367
Between two and five years	25,732	25,732	27,582	27,582
	32,343	32,343	33,949	33,949

27 RELATED PARTY TRANSACTIONS

The School has maintained a Register of Interests of all Council members. Written assurances have been obtained from all Council members in respect of themselves and their close family that for the year ended 31 July 2012, 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 activities of the LSE Students' Union have not been consolidated on the grounds that the School does not have significant influence over its activities. During 2011-12 the Students' Union received financial support from the School. There were also transactions between the Students' Union and the School for services and goods provided by each party. The General Secretary of the Students' Union is a member of Council.

The School received payments for services, billed at commercial rates, from the Russell Group. Professor Judith Rees, was a board director of the Russell Group. The School received payments for career fairs, billed at commercial rates, from Goldman Sachs International and Clifford Chance LLP. Mr Peter Sutherland, Chairman of the Council, is the Chairman of Goldman Sachs International. Mr Alan Elias, a Council member of the School and Chairman of the Audit Committee, is a consultant to Clifford Chance LLP. The School also received course fees from Interights. Mrs Anne Lapping, Vice Chair of the Council, is a non-executive Director of Interights.

The School conducted a review of linked charities in 2011-12 and found no associated entities falling within the definition set out in paragraph (w) of Schedule Two of the Charities Act 1993.

28 CONTINGENT LIABILITIES

The School has entered into rental guarantees with Shaftesbury Housing, Urbanest UK Minories Ltd and UNITE Integrated Solutions plc. In 2012-13, the School will have a financial commitment related to 659 beds with a potential liability estimated at £5.6m. Between 2013-14 and 2017-18, the School will have a financial commitment related to 660 beds with a potential liability estimated at £6.6m per year.

The School received a payment with respect to previously unclaimed input tax during the period between 1973 and 1997 (Fleming Claim) in September 2010. HMRC has recently issued a recovery assessment in September 2012 for the entire amount disputing the entitlement of the claim. Because of the uncertain nature of the basis of their assessment no sum has been provided.

29 SCHOLARSHIPS AND ACCESS FUNDS

	2012 £'000	2011 £'000
Student support provided by the School's general funds and endowments	10,609	10,418

Access Funds		
Balance unspent as at 1 August	14	13
Funding Council grants	43	37
Interest earned	1	1
Disbursed to students	(49)	(37)
Balance unspent as at 31 July	9	14

Access funds provided by the Funding Council are available solely for students; the School acts as a paying agent. In addition to HEFCE Access Funds, the School also disburses ESRC grants and US federal loans as paying agent. The grants and related disbursements are therefore excluded from the income and expenditure account.

30 FUNDING OF TANGIBLE FIXED ASSETS

	At 1 August 2011 £'000	Additions funded by loans and general reserves £'000	Additions funded by deferred capital grants £'000	Depreciation £'000	At 31 July 2012 £'000
Land and buildings	285,786	15,759	2,266	(4,795)	299,016
Equipment	2,963	677	–	(689)	2,951
	288,749	16,436	2,266	(5,484)	301,967

Funded by :		
Deferred capital grants	92,009	92,965
Bank loans/creditors	33,210	31,537
General reserves	163,530	177,465
	288,749	301,967

31 TRUSTEE EXPENSES

During 2011-12, no payment was made to any trustee for serving as a trustee.

32 POST BALANCE SHEET EVENT

The School has submitted an application to become a Guarantor Member of Professional H E Services Ltd, a company established by the British Universities Finance Directors Group. The liability of each Guarantor Member is limited to a sum not exceeding £10.

Five year analysis of income and expenditure

33 FIVE YEAR GROUP FINANCIAL SUMMARY	2011-12 £'000	2010-11 £'000	2009-10 £'000	2008-09 £'000	2007-08 £'000
Income					
Funding Council grants	27,962	29,652	30,616	29,549	29,701
Tuition fees and education contracts	126,746	114,705	106,613	96,679	91,371
Research grants and contracts	22,696	24,068	23,856	20,272	17,772
Other income	60,288	59,237	53,804	49,021	42,744
Endowment and investment income	6,043	6,041	4,805	7,205	8,324
VAT claim	–	–	1,224	–	–
Total income	243,735	233,703	220,918	202,726	189,912
Expenditure					
Staff costs	125,768	121,338	117,905	107,726	95,159
Other operating expenses	84,682	84,745	75,162	69,818	62,100
Depreciation	5,484	5,600	5,421	5,184	3,688
Interest payable	3,092	3,160	3,201	2,445	2,519
Total expenditure	219,026	214,843	201,689	185,173	163,466
Exceptional items	–	2,299	–	–	302
Surplus before tax	24,709	21,159	19,229	17,553	26,748
Taxation	–	–	–	–	56
Transfer to endowment	(500)	(1,216)	(1,034)	–	–
Surplus retained within general reserve	24,209	19,943	18,195	17,553	26,804

Deferred capital grants	92,965	92,009	92,683	85,235	77,744
Endowments	83,199	81,717	72,630	57,366	56,853
Reserves	216,068	191,859	171,916	153,721	136,168
Total	392,232	365,585	337,229	296,322	270,765

Held as:					
Fixed assets	302,077	308,063	247,844	242,673	230,521
Endowment investments	83,199	81,717	72,630	57,366	56,853
Investments to support endowments	10,000	–	–	–	–
	395,276	389,780	320,474	300,039	287,374
Net working capital	26,838	7,396	50,330	31,185	27,032
Long term liabilities	(29,882)	(31,591)	(33,575)	(34,902)	(43,641)
	392,232	365,585	337,229	296,322	270,765

Corporate governance and internal control statement

The following statement is provided to help readers of the annual accounts to gain an understanding of the governance structure of the School and to indicate the School's internal control and risk management arrangements.

The School is an exempt charity and a company limited by guarantee. The Memorandum and Articles of Association form LSE's constitutional documents. The School complies with the Committee of University Chairmen's (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. 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 our charity trustees and are required to discharge their duties with prudence and care and to accept ultimate responsibility for the affairs of the School. The ways in which the LSE provides public benefit are documented elsewhere in these Accounts.

The principal governance 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 the 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; and 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 (ie, 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.

There are specific arrangements in place to ensure the cross-reporting of business between the Court and 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 and in its Statement of Primary Responsibilities. Its primary role is to agree strategic direction and to maintain a focus on areas identified in the Strategic Plan. It has specific responsibilities in relation to: the monitoring of institutional performance; finance and financial sustainability; audit arrangements; estate strategy; human resource and employment policy; equality and diversity; health and safety; "educational character and mission", and the student experience.

Council is supported in carrying out its role by a number of standing committees which report directly to it. These are Audit, Estate Strategy, Finance, Health and Safety and Remuneration.

In June 2012, it approved the LSE's first Ethics Code, following extensive consultation within the School community. New procedures for the ethical screening of grants and donations were approved, and the Ethics Policy Committee was established. The Committee will, from 2012-13 onwards, have responsibility for advising the governing body on all ethical matters of general importance to the School, as well as regularly reviewing the Ethics Code.

The Chairman's Group of the Council has power to act during vacations and between meetings of the Council in any urgent matter which would normally come before the Council, within prescribed limits. With the Council now meeting nine times a year, there is little call to convene the Chairman's Group. In 2011-12 it met only once, to consider an option to bid to acquire the Women's Library from London Metropolitan University.

Although the 2011 Woolf Report into the LSE's links with Libya made no formal recommendations regarding the operation of Council, the Council voluntarily commissioned a further review of its own effectiveness. To this end, in January 2011, the Council established a Council Effectiveness Review Group (CERG) comprising of lay, student and academic members. The Review Group reported its findings to the Council Awayday in September 2012, and recommended a number of changes to the current governance arrangements, including many aimed at ensuring the effectiveness of communication flows and creating a suitable environment for collegial debate and constructive challenge at Council meetings.

Certain powers are reserved to the Council by the School's Memorandum and Articles of Association; these may not be delegated. However, the Council has a formal Scheme of Delegation, setting out those areas where authority has been delegated by the Council to the Director and the School Secretary. Further to the CERG Review, the Scheme will be further broadened to set out areas of delegation to the Director of Finance and Facilities and the Academic Registrar and Director of Academic Services. It is hoped that this will further reinforce the management-governance boundary and ensure that Council meetings do not become cluttered with minor operational matters which should be within the authority of officers of the School.

The Director and Director's Management Team

The Director is the head of the School and its chief executive officer, responsible for the executive management and direction of the School and leadership on academic issues. The Director reports to and is accountable to the Council. The Director is also the accountable officer for the purposes of the Higher Education Funding Council for England (HEFCE) Financial Memorandum. The School's Director, Professor Craig Calhoun, was appointed following a selection process that involved consultation with the Court of Governors, Academic Board and the Council: he took over this role from Professor Judith Rees on 1 September 2012. The new Director has undergone an extensive induction, which included a comprehensive briefing on his responsibilities as the Accountable Officer and the procedures in place to ensure the veracity of information included in the HEFCE Annual Accountability Return. The Director met with members of the Audit Committee in November 2012, who satisfied themselves on these points.

The Academic Board

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. Following the recent view of Council effectiveness, the Vice Chair of the Academic Board will become a voting member (director and trustee) of the Council and will report to each meeting of the Council.

The last routine review of the effectiveness of the Academic Board was completed in 2010 and it did not generate any substantial recommendations for improvement. During 2011-12, the Academic Board met seven times. Key areas for discussion included: PhD scholarships, admissions criteria and acceptable parameters of editorial assistance; a full review of the outcomes of the Teaching Task Force recommendations; the direction of travel of the School's research policy; the Woolf Report (including consultation on the draft Ethics Code); and the implementation of a new Academic Feedback Policy. On 12 October 2011, the Board also approved written standing orders describing in detail the processes by which it should operate.

Controls framework

The Council confirms that it complies with the recommendations of the CUC Governance Code of Practice and General Principles (March 2009) in all material respects.

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.

All members of the Council receive the HEFCE assessment of institutional risk, the most recent version of which stated that the School was "not at higher risk"; this being the highest available level of assurance.

The Audit Committee, which meets a minimum of five times per year, is responsible inter alia for advising the Council on the effectiveness of the School's risk management and controls systems. Controls come from a variety of sources, including:

- monitoring by the Director's Management Team (DMT) of success or otherwise in implementing Strategic Plan objectives, with progress reported to Council;
- regular review by DMT of policy issues and problems;
- annual monitoring of "institutional health" on the basis of KPIs which are discussed at Council;
- termly meetings between DMT and Service Leaders to review progress and issues of concern arising from operational activities;
- risk review by senior managers, on at least a termly basis;
- the Secretary, Director of Finance and Facilities and the Academic Registrar and Director of Academic Services hold regular policy meetings; and the Director meets regularly with the Heads of Academic Departments;
- annual Service Development Reviews, which include SWOT (Strengths, Weaknesses, Opportunities, and Threats) analyses;
- the Director of Business Continuity Planning has a dual role, also serving as Director of the Planning and Corporate Policy Division. In recent months additional administrative support has been allocated to business continuity planning, both to support the post-holder and to facilitate the devolution of responsibility for business continuity from "the centre" to service leaders and heads of departments.
- 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 and the Committee with a report on internal audit activities within the School and an opinion on the adequacy and effectiveness of the School system of internal controls. The Head of Internal Audit is independent of the School and has direct access to the lay Chair of the Audit Committee, and the Director in his capacity as the institution's accountable officer;
- Financial Regulations, detailing financial controls and procedures, approved by the Finance Committee on behalf of the Council;
- clearly defined and formalised requirements for the 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;
- scrutiny of policy and practice by committees of the Council, such as Estates and Finance;
- regular review of the effectiveness of the Council and its sub-committees;
- a written scheme, setting out delegation of executive authority from the Council to the Director and to the School Secretary;
- constitutional documents (the Memorandum and Articles of Association), which reserve certain powers to the Council and Court of Governors;
- a Strategic Risk Register, reviewed by DMT and considered by Audit Committee and Council on a termly basis;
- ongoing forward planning for succession at senior levels, as well as pre-appointment induction and significant handover periods for positions such as the Director and School Secretary.

Within this governance framework, the Audit Committee plays an important role in assessing whether the controls in place to manage strategic risk are adequate. The Committee reviews risk controls and reports to Council on a termly basis.

During 2011-12, the Audit Committee played an instrumental role in monitoring the School's progress in implementing the recommendations of an independent inquiry (the Woolf Report) into the School's relationship with Libya. Similarly, the Committee continued to provide oversight over the steps taken by the School to address previously identified weaknesses in the controls relating to IT governance and management, expenses and processing of fee payments. During the year, these have included, but were not limited to, the following:

- enhancement of the IT User Accounts Policy to include more information on data access rights for different types of user. Service accounts ie, those used by individuals maintaining the systems and third parties are incorporated into this policy, and a separate process has been developed for managing and reviewing these accounts;
- significant improvement to the School's disaster recovery and business continuity arrangements ahead of the London 2012 Olympic and Paralympic Games;
- redesign of the ITS project management methodology and approach to ensure that these are fit for purpose and focused on delivery;
- benchmarking of the School against ISO 27001 (the International Standard for Information Security) in order to develop a costed action plan to achieve compliance with the standard;
- development of proposals to restructure the ITS Department with a view to improving customer support and data management;
- approval of a revised expenses policy, strengthened to further clarify approval processes, with guidance circulated to all budget holders regarding expectations as to reasonable claims and the introduction of weekly reviews within Finance Division to ensure that checks are being carried out correctly;
- improvements to the financial processes for dealing with tuition fee payments.

In addition to remedial work in areas where weaknesses were identified, actions were taken in-year to strengthen internal controls. Examples include:

- the introduction of improved, streamlined governance arrangements for IT, including the establishment of an Information Technology Committee, and the addition of external members;
- new arrangements for the governance and management of Research Centres;
- approval of a formal procedure for the ethical screening of incoming grants and donations.

The Audit Committee have continued to advise on the presentation and usefulness of the Strategic Risk Register. In order to ensure that the Register remains strategic in focus, in 2012-13 the Register will be reduced in size and closely aligned with the School's new strategic plan, with a number of operational risk registers being further developed and maintained at departmental level.

In addition to monitoring of strategic risk and internal controls, the Audit Committee have continued to exercise their duties in relation to: financial reporting, data quality, effective governance and value for money. The opinion of the Audit Committee and of the Head of Internal Audit as to the School's arrangements for ensuring economy, efficiency and effectiveness (value for money) were presented to the Council at its November 2012 meeting, where these Annual Accounts were approved.

In December 2011, a joint meeting of the Audit and Finance Committees agreed to the establishment of an Effective Financial Management Review Group comprising members of both committees, and chaired by the Audit Committee Chair. The EFM Review was carried out using the National Audit Office (NAO) Financial Maturity Model. The outcomes of the review were reported to the Council in June 2012, and an improvement plan will be presented the next joint meeting in December 2012. Thereafter, implementation of the recommendations will be monitored by the Audit Committee.

The School's Internal Audit Service is currently provided by BDO LLP. The Head of Internal Audit, a Partner at BDO, regularly reports to the Secretary and 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. The work of the Internal Audit Service includes continuing review of the strategic and operational risks associated with key School systems and units.

Following approval by the Court of Governors in June 2011, provision of the School's External Audit Service transferred from Grant Thornton UK to PricewaterhouseCoopers in January 2012. Following a tender process, Grant Thornton will continue to undertake external audit services in respect of the Accounts produced in line with US GAAP, under a separate contractual agreement.

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; an increasingly vital income stream for the School. The Director of Finance and Facilities and the School Secretary are both director members of the Board of LSE Enterprise Ltd, a wholly owned subsidiary of the School which provides executive education and consultancy services and whose profits are gift-aided to the School each year.

The main activities of the Finance Committee relate to the following areas: financial strategy and risk; funding adequacy, cash flow and investment; financial forecasting and budgets; financial policies and regulations; evaluation of major commitments; and review of financial performance at aggregate level. The Finance Committee has both lay and expert membership and is supported in its work by the following sub-groups/committees: Investment; Ancillary Programmes; Endowment Management; and the Annual Fund Advisory Group.

The Financial Regulations are regularly updated and set out policies and procedures related to purchasing. The Purchasing Manager reports annually to the Academic Planning and Resources Committee on value for money related to purchasing activities. The Financial Regulations set out policies and procedures related to capital expenditures. In practice, the School has three main categories of capital expenditure: buildings and estate related; IT related; and catering equipment. All items of expenditure in excess of £1 million require approval of Council. All estates capital items require approval of the Estates Strategy Committee, and all IT related items require approval of the IT Portfolio Board.

All academic and service departments are subject to annual review of progress with Departmental Development Plans or Service Development Plans.

There is a multifactor Resource Allocation Model for academic departments to ensure that staff and non-staff budgets are determined based on a fair allocation of resources in relation to student numbers and other key factors.

There is a strong budgetary control process, with a high degree of decision autonomy delegated to budget controllers on how to spend budgets but very limited opportunity to overspend.

There are additional processes for administration and control of Research Grants, donations and endowments where there are specific conditions on how the grant may be spent.

The Remuneration Committee oversees remuneration arrangements, which operate within a national job evaluation and pay negotiation framework. There are controls on hiring of staff and headcount operated by HR and Finance to ensure that staff are only recruited where budgets are approved; and these are only approved following review of progress on Departmental Development Plans/Service Development Plans.

The Remuneration Committee is also responsible for succession planning at senior level. 2011-12 was a notable year in this regard, with several transitions and reorganisation in senior management, including the following appointments or promotions:

- the appointment of Professor Craig Calhoun as successor to Professor Judith Rees as Director of the School as of 1 September 2012;
- the appointment of Susan Scholefield CMG as Company Secretary, Clerk of the Court, and Secretary to the Council on 11 June 2012;
- the appointment of Nick Deyes (Director of Information Management and Technology);
- the promotion of Simeon Underwood (formally Academic Registrar) to the newly created role of Academic Registrar and Director of Academic Services;
- the extension of the role of Andrew Farrell (Director of Finance and Facilities) to include IT Services;
- at the end of her maximum period of tenure, Professor Janet Hartley was succeeded by Professor Paul Kelly Pro-Director (Teaching and Learning).

The principal objective of the School's business continuity arrangements is to mitigate the potential impact on the School's teaching and research activities should any of the identified principal continuity risks crystallise. A dedicated webpage provides staff and students with up to date information about current significant risks to the continuity of their work. It also provides advice to help mitigate those risks through links to external sites that provide additional information. During 2011-12, business continuity plans were developed to cover major events, such as the London Olympic and Paralympic Games. The School also introduced and tested a major incident initial response plan. Work will be undertaken during 2012-13 to devolve a greater level of responsibility for business continuity planning to departmental level.

In March 2012, the Director of the School wrote to the Chief Executive of HEFCE to appraise the Funding Council of any issues which might constitute a "serious incident", under HEFCE definitions. The reporting threshold is quite low. She provided an update on progress in implementing the recommendations of Lord Woolf's report into the School's links with Libya. In addition, HEFCE were apprised of the fact that two members of the Court of Governors (neither of whom are members of the Council, the School's governing body), have pending criminal trials on matters unrelated to the School and which are a matter of public record.

The Funding Council was also informed of two separate investigations into allegations of fraud involving sums in excess of £25k. The first, reported in the Director's letter to HEFCE of March 2012, concluded with the School taking appropriate disciplinary action, and the School's expense claim policy being amended. HEFCE have also been informed of the second fraud investigation, which was referred to investigatory authorities who confirmed that they would not pursue criminal charges.

Declaration of the Council

In accordance with the Companies Acts', 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 Acts, 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 the 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 ensured that:

- suitable accounting policies were selected and applied consistently;
- judgements and estimates made were reasonable and prudent;
- applicable accounting standards had been followed, subject to any material departures disclosed and explained in the financial statements;
- financial statements were prepared on the going concern basis.

The Council is satisfied that the School has adequate resources to continue in operation through 2012 and 2013; 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.

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.

Environmental policy

The purpose of the London School of Economics and Political Science (LSE) is to increase understanding of a complex and changing world through excellent teaching and research in the social sciences by promoting its work to policy makers and practitioners in the public, private and voluntary sectors. Founded in 1895, LSE adopted the motto *rerum cognoscere causas* – to understand the causes of things. LSE:

- employs over 2,800 members of staff
- educates over 9,000 students from 140 countries
- houses 3,784 students in 10 halls of residence across five London boroughs

Manages another 28 buildings covering over 115,700 m^2 in Camden and the City of Westminster, including a nursery, 13 catering outlets, a world renowned library, a public house and a 27 acre sports ground in Surrey.

Policy aims

LSE recognises that its activities, products and services have environmental, social and economic impacts. LSE is committed to acting responsibly to minimise its environmental impact through the following aims:

1. Reduce the use of natural resources
2. Prevent the physical degradation of ecosystems
3. Prevent pollution from emissions and discharges, in particular those that directly contribute to climate change
4. Provide leadership in the field of sustainability
5. Create a vibrant community in which staff, students and visitors have the opportunity to individually and collectively support the School in protecting the environment.

Environmental Management System

The Environmental Management System will continually improve environmental performance by:

- planning, implementing, checking and reviewing policies, plans and procedures
- developing targets and performance indicators for each objective
- complying with and exceeding all relevant environmental legislation, regulations and other requirements
- achieving external accreditation, including ISO14001.

Publicly communicating progress, including the production of an annual report

The LSE Environmental Policy is initiated and endorsed by senior management who have ultimate responsibility for improving the LSE's environmental performance. All staff, students, visitors and relevant external stakeholders share this responsibility. They are supported by the School's Sustainability Team who advise the Environmental Management Review Group and the Environmental Management Working Groups and administer the Environmental Management System.

The School seeks to support the leaders of the future to responsibly shape the world in which we live by creating an institutional culture which collectively works to deliver the LSE Environmental Policy.

Policy objectives

Biodiversity and urban landscapes
Monitor, maintain and enhance biodiversity and habitats on the School estate.

Community involvement
Communicate with interested parties on the Environmental Policy including contacts in the immediate neighbourhood, the regional, national and global community. This includes but is not limited to the education, business, media, and alumni communities.

Construction and refurbishment
Reduce consumption of new materials and increase the reuse and recycling of materials.

Incorporate environmental criteria into material and contract specifications to reduce whole life cycle environmental impacts.

Create built environments that meet the highest environmental standards.

Education for sustainable development
Research: Shape public policy on environmental and social issues and ensure that LSE remains at the forefront of academic investigation and public debate in these areas through the work of the Grantham Research Institute on Climate Change and the Environment, the Centre for Environmental Policy and Governance, the Centre for Climate Change Economics and Policy and the Department of Geography and Environment.

Teaching and Learning: Ensure that LSE graduates have a full understanding of the environmental and social dimensions of leadership.

Training and Guidance: Ensure that staff, students and visitors are able to access information on sustainable lifestyles to support their development as responsible global citizens.

Energy and water
Reduce consumption and increase efficiency of energy and water use in buildings and equipment.

Reduce emissions and discharges from buildings and equipment.

Health, welfare and safety
Support the communication and delivery of the LSE Health and Safety Policy and the LSE Well Being Policy to ensure the health, safety and well being of all staff, students and visitors.

Income and investment
Support the communication, implementation and delivery of the LSE Socially Responsible Investment Statement to ensure ethical investment processes and the consideration of social, environmental and governance factors in investment decisions.

Procurement
Require contractors, sub-contractors and suppliers to meet or exceed all relevant environmental legislation and regulations and work to improve the environmental performance of the School.

Support the communication and delivery of the LSE Fair Trade Policy.

Transport
Minimise emissions arising from commuting, business travel choices and deliveries.

Waste and resources
Use the zero-waste "rethink-reduce-reuse-recycle" criterion in waste and resource management.

Report of endowment investment

Funding from the School's various endowments along with tuition fees, HEFCE grants, research grants and related philanthropy are the School's main sources of income. Endowment support is the only form of income that can put the School in control of its own long term financial destiny. Throughout the School's history endowed gifts have made a meaningful 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 2012 the School's endowments totalled £83.2m. 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 the School's unique public benefit as a charity focused on the "betterment of society". This is particularly the case with 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 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 sets the investment strategies and determines the asset allocation to achieve the return target set by the Endowment Management Group. Both Endowment Management Group and Investments Sub-committee report to the Finance Committee. The Finance Committee 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 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, Stanhope Jewson. 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 – a separate investment 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 total return based on the opening market value for 2011-12 of Pool A and Pool B and FER is 1.4 per cent, 4.8 per cent, and 5.6 per cent respectively.

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

ENDOWMENT INVESTMENT PERFORMANCE	Market Value 31 July 2012	Asset Allocation Target	Tolerance Band	31 July Actual
POOL A	£	%	%	%
UK equities	20,739	40	35-45	54
Overseas equities	7,267	20	15-25	19
Emerging market	1,797	10	5-15	5
Bonds	7,852	20	15-25	20
Alternative	8	10	5-15	0
Cash	784	–	0	2
	38,447	100		100
POOL B				
UK equities	4,335	45	40-50	43
Overseas equities	1,050	10	5-15	10
Bonds and gilts	4,074	40	40-50	41
Cash	570	5		6
	10,029			100
FER				
UK equities	6,369	40	35-45	38
Bonds and gilts	9,943	38.5	55-65	60
		19.5		
Cash	408	2		2
	16,720	100		100
Freehold property	33			
Cash on Deposits	17,970			
Total portfolio	83,199			

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

We have audited the group and parent institution financial statements (the "financial statements") of the London School of Economics and Political Science ("the School") for the year ended 31 July 2012, which comprise: the Consolidated Income and Expenditure Account; the Consolidated Balance Sheet; the Consolidated Cash Flow Statement; the Statement of Group Total Recognised Gains and Losses; the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the Council and auditors

As explained more fully in the Corporate governance, internal control and Council's responsibility statement on page 42, the Council (who are also the directors of the company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Council of the School, in accordance with the Charters and Statutes of the Institution and Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent institution's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the School's affairs as at 31 July 2012 and of the group's income and expenditure, recognised gains and losses, and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been properly prepared in accordance with the requirements of the Statement of Recommended Practice – Accounting for Further and Higher Education; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on other matters prescribed in the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992

In our opinion, in all material respects:

- funds from whatever source administered by the School for specific purposes have been properly applied to those purposes and, if relevant, managed in accordance with relevant legislation;
- income has been applied in accordance with the School's statutes and;
- funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the School, or returns adequate for our audit have not been received from branches not visited by us; or
- the School's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 we are required to report to you if, in our opinion:

- the corporate governance and internal control statement is inconsistent with our knowledge of the parent institution and group.

Ian Looker (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 November 2012

Directors of the School and members of the Council

Mr Peter Sutherland KCMG
Chairman of the Court and Council and Remuneration Committee

Ms Kate Jenkins
Vice Chairman

Mrs Anne Lapping
Vice Chairman

Professor Judith Rees
Director of the School (until 31 August 2012)

Professor Craig Calhoun
Director of the School (from 1 September 2012)

Professor Stuart Corbridge
Pro-Director of the School

Professor George Gaskell
Pro-Director of the School

Ms Alex Peters-Day (from 4 July 2011)
General Secretary of the Students' Union

Dr Jason Alexander (from 1 August 2012): Academic Member

Professor Martin Anthony Academic Member

Ms Lis Astall: Lay Governor

Ms Virginia Beardshaw: Lay Governor

Ms Vivina Berla (until 31 July 2012): Lay Governor

Ms Angela Camber Chair of Health and Safety Committee

Mr James Maltz (from 1 November 2011): Student Member

Mr Adam Connell (until 31 October 2011): Student Member

Ms Bronwyn Curtis (until 31 July 2012): Lay Governor

Mr Alan Elias Chair of Audit Committee

Dr Matthew Engelke Academic Member

Mr Tim Frost Deputy Chairman of Finance Committee

Mr Richard Goeltz Lay Governor

Mr Mark Molyneux Chairman of Finance Committee

Mr William Nigel Hugill Chairman of Estates Strategy Committee

Professor Janet Hunter Academic Member

Professor Emily Jackson Academic Member

Professor Eileen Munro Academic Member

Ms Harriet Spicer Lay Governor

Members of the Council not directors of the School

Professor Janet Hartley (until 31 August 2012): Pro-Director of the School

Professor Paul Kelly (from 1 September 2012): Pro-Director of the School

Professor David Marsden: Academic Member, Vice Chairman of Academic Board

Professor David Stevenson: Academic Member, Vice Chairman of Appointments Committee

Company secretary

Mr Adrian Hall (until 10 June 2012)

Ms Susan Scholefield CMG (from 11 June 2012)

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
Philosophy, Logic and Scientific Method
Social Policy
Social Psychology
Sociology
Statistics

Research centres

Asia Research Centre
Centre for Analysis of Social Exclusion (CASE)
Centre for Climate Change Economics and Policy (CCCEP)
Centre for Economic Performance (CEP)
Centre for Philosophy of Natural and Social Science (CPNSS)
Centre for the Analysis of Time Series (CATS)
Centre for the Study of Human Rights
Financial Markets Group (FMG)
The Grantham Research Institute on Climate Change and the Environment (GRI)
IDEAS: International Affairs, Diplomacy and Strategy
International Growth Centre (IGC)
LSE Cities
LSE Health and Social Care
Middle East Centre
Spatial Economics Research Centre (SERC)
Suntory and Toyota International Centres for Economics and Related Disciplines (STICERD)

The London School of Economics and Political Science
Houghton Street
London
WC2A 2AE
Tel: +44 (0)20 7955 7686

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