



THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■

FINANCIAL STATEMENTS 2015-16

FOR THE
YEAR ENDING
31 JULY 2016

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Report of the Acting Chair of the Court of Governors

I am honoured to have been appointed Acting Chair of the Court of Governors and Council. I have a long history with LSE as a School Governor since 2005 and Vice Chair since 2014, a member of Council since 2008 and I was Chair of the Audit Committee 2010 to 2014. I am delighted that Dame Shirley Pearce will assume the role of Chair of the Court of Governors and Council on 1 January 2017.

I would like to take this opportunity to thank Professor Craig Calhoun for his contribution to the continued success of the School during his four years in office to 31 August 2016. Professor Julia Black will continue to drive LSE forward as interim Director from 1 September 2016 until the new Director is in post. I am pleased that Dame Nemat (Minouche) Shafik, Deputy Governor of the Bank of England and LSE Alumna, will take up office as the 16th Director of the School on 1 September 2017.

There is no doubt that the outcome of the EU Referendum on 23 June 2016 presents new challenges for the School over the coming months and years, but it also creates opportunities. LSE is well placed to offer technical expertise on many aspects of the UK's exit from EU and we will be running a programme of events on related issues to contribute to the public debate.

We have completed and implemented a review of our Governance arrangements and Senior Management Structure initiated by my predecessor, Lord Paul Myners, whom I thank.

Elsewhere, the School thrives and develops. In January 2016 Council adopted a new Education Strategy which will continue the School's strong tradition of interaction between research, teaching and learning. It seeks to improve the experience our students have while at the School and prepare them for the increasingly complex and challenging world into which they will graduate. The major building work on the Centre Building Development at the heart of our estate has continued over the past year. The demolition phase is almost complete and we will soon start to see the new buildings rising upwards. Student facilities have been developed across campus to compensate for the closure of the central buildings, but we all look forward to the improved space the development will bring.

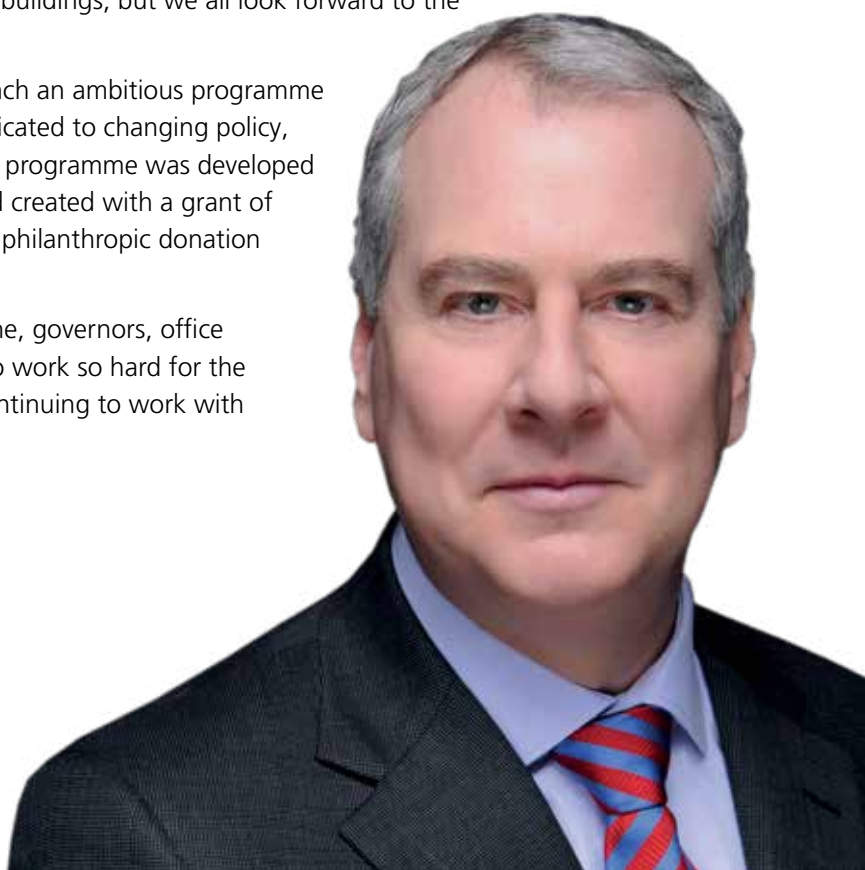
It was announced in June that the School would launch an ambitious programme designed to build a global community of leaders dedicated to changing policy, practice and public dialogue around inequalities. The programme was developed by the School's International Inequalities Institute and created with a grant of £64.4m from The Atlantic Philanthropies, the largest philanthropic donation in LSE's history.

I would like to take this opportunity to thank everyone, governors, office holders, academic and professional services staff who work so hard for the good governance of the School. I look forward to continuing to work with you all over the coming year.



Alan Elias

Acting Chair of Court and Council



Report of the Director of the School

When this report is published, I will have stepped down as Director of the School. I remain enthusiastic about LSE and its potential. Serving the School remains one of the most important things I have done and I will continue to serve as Centennial Professor in the Department of Sociology. The School's key priorities for 2015-16 were to put in place a Strategic Plan, with a core focus on teaching excellence, research of international quality and effective public engagement.

At the top of our agenda was our vision to improve substantially the quality of our educational programmes. This is central to the School's mission and its finances, because student fees are our major revenue source. LSE has a global reputation for its research and we want to ensure its teaching is regarded in the same light, recognised for its innovation, its dynamic learning environment and its interdisciplinary focus. We want our graduates to be well informed, with critical and analytical skills that are globally transferable and well regarded. An LSE education is rigorous preparation for future careers and citizenship worldwide. Professor Paul Kelly, as Pro-Director for Education, introduced a new Education Strategy. He and I announced in February 2016 that LSE would invest £11m in education and student experience over the next three years. We also introduced a new timetable which allowed for more time for beyond-the-classroom teaching and embedding research into taught programmes to offer new experiences for students; this includes assessing class participation and group activities, field trips within London, experiential research projects and Lent Term exams. These developments will be vital as, disappointingly, we saw a further drop in LSE's student satisfaction rating in the latest National Student Survey (NSS), released in August 2016. The School's leadership intends to address this challenge head on and I know that Professor Black will prioritise this during her tenure.

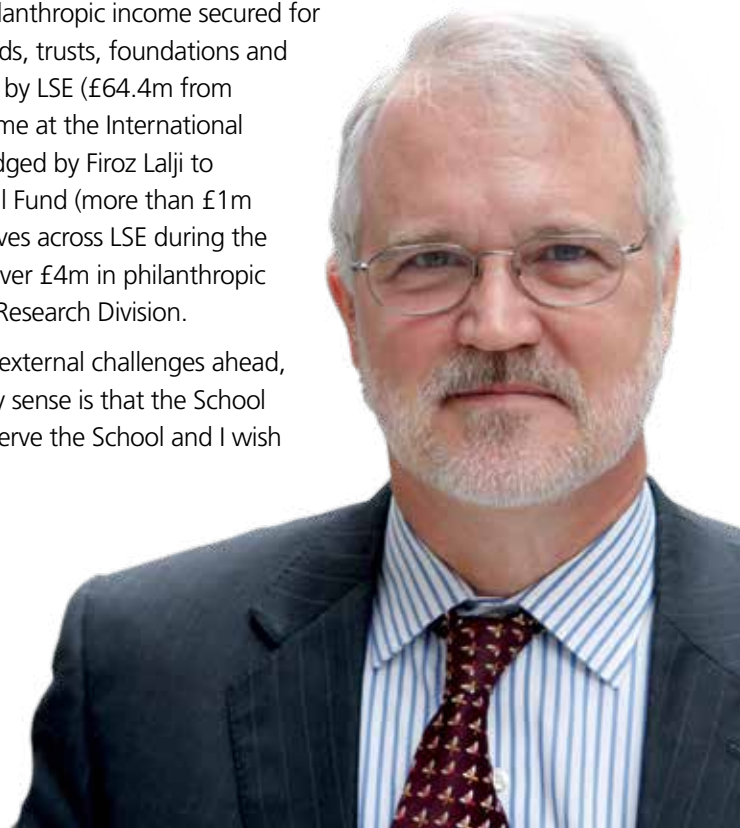
LSE's Centre Building Redevelopment continues apace and will create a state-of-the-art, flexible and highly sustainable academic and teaching building. In April 2016, LSE announced that Dublin based practice Grafton Architects had been selected as the winners of the international architectural competition to design 44 Lincoln's Inn Fields / The Paul Marshall Building, our next major building project. Since the announcement, LSE and Grafton Architects have been busy setting up the project arrangements to ensure everything goes smoothly as the teams will be working together for the next six years until the building is finished and occupied in 2021. We can look forward to a world class, flourishing campus.

In 2015-16, LSE Advancement enjoyed another record year in philanthropic income secured for strategic School projects, with £85m raised from alumni and friends, trusts, foundations and business partners. This total included the largest gift ever received by LSE (£64.4m from the Atlantic Philanthropies to create the Atlantic Fellows programme at the International Inequalities Institute), the largest gift from an alumnus (£10m pledged by Firoz Lalji to endow the Centre for Africa), and a record year for the LSE Annual Fund (more than £1m raised from 3,369 donors). The Annual Fund supported 93 initiatives across LSE during the year, including 87 that directly enhance the student experience. Over £4m in philanthropic research grants was generated through, or in collaboration with, Research Division.

2015-16 has been a successful year for the School. There are key external challenges ahead, not least in relation to the Higher Education Bill and Brexit, but my sense is that the School is in a strong position to take these on. It has been a privilege to serve the School and I wish Professor Black and indeed the whole School every success.



Professor Craig Calhoun
Director, LSE



Welcome from the Interim Director

LSE is an extraordinary institution. I am delighted to have been appointed Interim Director from September 2016 and will continue my work as Pro-Director (Research) simultaneously, whilst the School recruits a new Director.

I must pay tribute to Professor Calhoun for his exceptional contribution during his term as Director. My primary goal during 2016-17 is to continue to implement the School's strategy, building on our significant strengths and addressing areas where we need to improve, alongside managing the rapidly changing political context in the wake of the EU Referendum and the Higher Education Bill.

Education Strategy

Professor Paul Kelly, Pro-Director (Education), recently published the LSE Education Strategy 2015-2020, which sets the path for the School to lead in the provision of research-informed social science education. An LSE education is designed for students who are keen to engage critically with their discipline and real world challenges, and who want to equip themselves, professionally and personally, for the world into which they will graduate.

LSE is making an extra investment of £11m over the next three years to enhance the education we provide and students' experience. This year, we have established a full complement of activities focused on supporting our students to realise their educational and professional ambitions. We have launched LSE LIFE, which is a new academic, personal and professional development centre for LSE's students on both undergraduate and taught postgraduate programmes; this will provide them with ongoing opportunities to develop academic, communication and research skills, learn languages, get advice on personal effectiveness and in making life choices, and gain insights into graduate recruitment and career paths. We have introduced the new Education Career Track, which supports LSE teaching staff and provides the opportunities for the development of specialist educators who wish to build their careers through teaching and educational leadership. Alongside this, a new Pro-Director Vision Fund has been launched to support the development of innovative LSE programmes. We are committed to investing in education and engaging with our students to enhance our world class provision.

External Environment

The School Management Committee is leading on our response to the outcome of the EU referendum. This includes the School's academic and intellectual response, its Communication and Public Affairs strategies, and the status of progress with developing plans to mitigate potential negative implications and to exploit new opportunities that may arise from the outcome of the EU referendum. The School has reacted swiftly to collect data/information to assess its level of exposure to any immediate impact and is putting in place actions to mitigate potential threats. Whilst the School has identified threats to its institutional interests, for example the future of research funding and the status of EU national staff and students, it also sees an opportunity to play a proactive role in influencing the media, public, policy makers and politicians as they react to, and in the latter cases lead, the process of exiting the EU and redefining the UK's relations with Europe and the world.

In the short term, and most urgently, the School is keen to reassure its EU national staff and students that they are welcome, secure and vital to the success of LSE. It is also proactively engaging with the Brexit negotiation preparations to try and shape the landscape facing LSE and feed LSE expertise into the ministers and officials working on Brexit in UK and Europe. The School is aiming to offer support to government whilst using every opportunity to lobby for protection for our staff and students and the security of EU research funding. We are also keen to be on the front foot to protect our EU funding and status within the EU as a research partner. We want to protect our reputation as a world leading, international facing University.

In the longer term the School wants to continue to attract the best international students and develop and deliver a teaching offer that fully reflects and examines the impact of Brexit. LSE wants to engage the public and share our research and knowledge. We also want to use our knowledge and capacity to advise, train and support civil servants and policy makers as they devise a Brexit plan and use our research capability to examine the consequences of Brexit and the policy options now available to the UK government and the EU.

Since the result of the referendum, the School and the higher education sector have been operating within an uncertain external environment and it is anticipated that this will continue for some time. We are fully cognisant that the implications of Brexit are not the only challenge facing LSE and the higher education sector as there is a range of changes ahead. The School is engaging with the government's programme of reform to higher education regulation, as expressed through the Higher Education and Research Bill, the review led by Professor Lord Stern of the Research Excellence Framework (REF) and the introduction of the Teaching Excellence Framework (TEF). We are mindful to consider the potential threats and opportunities for LSE arising from the Brexit situation, alongside a range of influential external changes. This changing landscape will impact on the way that the School works and we have teams across our Professional Service Divisions seeking to understand how it will do so and to plan how we respond.

Financial position

LSE is fortunate to be in a strong financial position. We are grateful that our Financial Statements show a healthy cash flow that allows us to invest in our campus and in the quality of education we provide. However, we are conscious that the external environment may impact on our income and we will closely monitor the financial impact and plan for contingencies.

I look forward to the challenges ahead and consider it an honour to act as Interim Director until the School welcomes my successor Minouche Shafik in September 2017.



Professor Julia Black
Interim Director, LSE



Report of the Directors

Purpose and strategy

The LSE's Council adopted the LSE Strategy 2020 in December 2015. Our strategy orients the School to the next stage in its continuing development and sets out specific areas of focus for our activity as we seek to keep advancing the quality of our teaching and research whilst retaining the vitality and public impact of the work carried out by our students and staff.

The School approaches this strategy aware of significant challenges facing the institution and the wider higher education sector; these include:

- Sharp decline in proportion of the School budget provided direct from UK government funding, with direct grants falling from nearly 80 per cent to less than 10 per cent and the consequent transformation into a university funded mainly by student fees.
- Intensified competition from both UK and international universities (and research and educational provision in other organisations), many of which have improved performance and are continuing to innovate in technology, educational programmes and their global reach.
- Educational performance and productivity inconsistent with our high aspirations and impressive performance in research.

In approaching the development and delivery of our strategy the School has had to make a number of strategic choices. The Council recently reaffirmed their commitment to:

- Building a core faculty committed to both education and research.
- Focussing on social science and closely related fields that contribute knowledge to understanding and changing society, collaborating with but not seeking to expand into other major dimensions of academic work.
- Strengthening face-to-face education and the intellectual community at our central London campus and developing thriving educational, research, and public engagement at this campus; this may be complemented by programmes overseas or benefit from technological innovation.

In pursuing our strategy we will continue to focus on our six key strategic themes:

- 1 We will substantially improve the quality of our educational programmes including the overall student experience, and develop opportunities for the brightest students regardless of their background.
- 2 We will strengthen our commitment to equity, diversity and inclusion and take relevant action throughout the institution.
- 3 We will continually improve faculty quality, research performance and intellectual innovation and enhance the quality of our Professional Services staff.

- 4 We will lead (and continue to be recognised in leading) in innovative, international, interdisciplinary, and issue-oriented social science.
- 5 We will enhance and diversify our revenue streams.
- 6 We will secure an estate and other facilities commensurate with our standing and aspirations.

Departments and Professional Service Divisions within the School have already begun to integrate these aims into their own strategic and operational plans and the Council receives a regular update from the Director on the School's progress in meeting these aims.

The goal of this strategy is clear: to enable LSE to thrive and to show in the future the brilliance it has exhibited in the past, to achieve the highest intellectual quality, and to contribute to society.

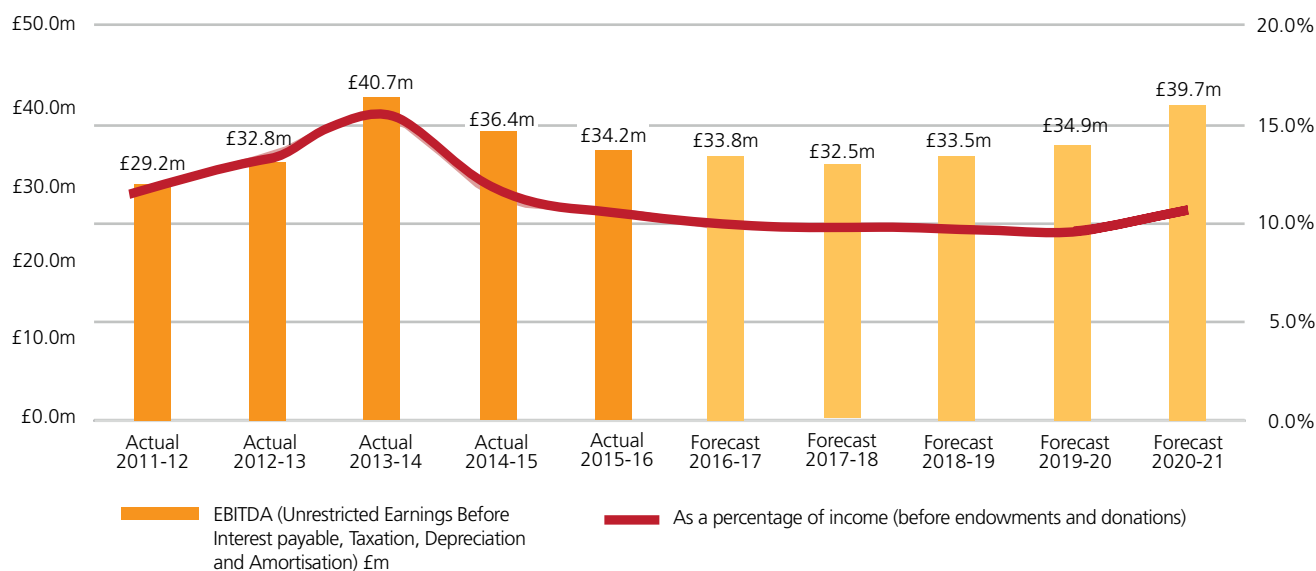
Strategic review of the 2015-16 Financial Statements

The 2015-16 results represent another strong financial performance for the School. Student numbers have grown in line with current plans, we have made significant investments in improving the student experience, increased the number and quality of academic staff, sustained high quality research activities and for a second successive year secured transformational philanthropic investment to support the work of our interdisciplinary institutes.



Financial overview**Table 1 – Summary financial data**

	2015-16		2015-16 Total	2014-15 Restated	Change	
	Unrestricted income	Restricted income			£m	%
	£m	£m	£m	£m		
Operating income	309.0	2.2	311.2	293.2	+18.0	+6.1%
Donations and endowments	2.6	26.9	29.5	10.1	+19.4	+192.5%
Total income	311.6	29.1	340.7	303.3	+37.4	+12.3%
Operating expenses	(277.4)	(6.0)	(283.4)	(264.4)	+19.0	+7.2%
Earnings before interest, tax, depreciation and Amortisation (EBITDA)	34.2	23.1	57.3	38.9	+18.4	+47.3%
USS past service deficit provision	(3.9)	–	–	(19.0)	+15.1	-97.7%
Depreciation	(11.2)	–	(11.2)	(10.2)	-1.0	+9.7%
Interest and other finance costs	(8.7)	–	(8.7)	(8.1)	-0.6	+7.2%
Operating surplus before other gains and losses	10.4	23.1	33.5	1.5	+32.0	–
Gains on investments	1.4	7.1	8.5	4.4	+4.1	+92.0%
Change in the fair value of hedging financial instruments	(10.8)		(10.8)	(6.6)	-4.2	+63.2%
Comprehensive income / (deficit) for the year	1.0	30.2	31.2	(0.7)	+31.9	–
Balance sheet						
Fixed assets			438.0	421.6	+16.4	+3.9%
Endowment assets and investments			253.2	241.7	+11.5	+4.7%
Net current assets			(16.4)	(32.6)	+16.2	-49.7%
Creditors over one year			(187.0)	(178.3)	-8.6	+4.8%
Pension liabilities and provisions			(38.8)	(34.4)	-4.4	+12.7%
Net assets			449.0	417.9	+31.2	+7.5%
Building and infrastructure investment			41.4	41.4	+0.0	+0.0%
Liquidity						
Cash and cash equivalents			58.6	40.4	+18.2	+45.0%
Investments			253.2	241.7	+11.5	+4.7%
Loans			(147.5)	(149.3)	+1.8	-1.2%
Net Funds			164.3	132.8	+31.5	+23.7%
Student numbers						
Undergraduate			4,853	4,574	+279.0	+6.1%
Postgraduate – taught			4,212	4,514	-302.0	-6.7%
Postgraduate – research			483	472	+11.0	+2.3%
Full time student numbers			9,548	9,560	-12.0	-0.1%
Part time			500	595	-95.0	-16.0%
Others (visiting, executive)			1,099	856	+243.0	+28.4%
			1,599	1,451	+148.0	+10.2%
			11,147	11,011	+136.0	+1.2%
Average full time equivalent staff numbers			2,596	2,456	+140.0	+5.7%
Staff costs as a percentage of income before donations			53.7%	53.6%	–	+0.1%

Table 2 – EBITDA (based on net unrestricted earnings before interest payable, taxation and amortisation)

Changes in accounting standards and the new Higher Education Statement of Recommended Practice

The 2015-16 Annual Accounts have been prepared in accordance with the new 2015 Higher Education Statement of Recommended Practice (SORP). This supersedes the 2007 SORP and aligns accounting for higher education with Financial Reporting Standard (FRS)102. Last year's figures, including the opening balance sheet have been restated to reflect the changes required by the 2015 SORP.

This has had a significant impact, for example reducing reported net assets at 31 July 2015 from £509.9m to £417.9m – see note 29.

References in this Strategic Review to year-on-year movements and the financial plans of the School are made on a basis consistent with the new SORP.

The main changes the new SORP brings to the financial statements are:

- The Income and Expenditure statement and Statement of Recognised Gains and Losses (STRGL) are replaced with a single Statement of Comprehensive Income (SOCI).
- As a result, new endowments and changes in the market value of endowments are both reflected on the face of the SOCI. We will usually report philanthropic gifts on the basis of the funds actually received during the year.

- The inclusion in the SOCI of the present value of the School's commitment to fund past service deficits in the USS and SAUL pension schemes.
- The inclusion of the School's interest rates swaps at fair value.
- Changes to the way income from contracts, donations and grants is recognised.

The changes to the way income is reported may, in certain circumstance, lead to the recognition of an entire grant or gift as income in the year of receipt even if its use is restricted to meeting expenses many years into the future. We are developing our internal reporting to ensure we can track between periods, related revenues and expenditures.

The effect of these accounting changes will be more volatile figures reported in the Consolidated Statement of Comprehensive Income and Expenditure than in its predecessor, the Income and Expenditure Statement. In anticipation of this change, the School has moved to focus its financial planning towards an "Earnings (based on unrestricted earnings) before interest paid, tax, depreciation and amortisation" (EBITDA), measure of income and expenditure.

Highlights

In summary, the Statement of Consolidated Income for 2015-16 shows a surplus for the year of £31.2m, £1.0m unrestricted and £30.2m restricted.

The EBITDA measure is less volatile as it excludes provisions for future costs and non-

cash revenues such as unrealised investment gains, movements in derivatives or pension provisions. The School's Council has adopted a preliminary target of 10 per cent of revenue for this measure. This is required to meet our interest and capital repayments, to fund further capital investment and allow sufficient flexibility to support the new academic initiatives that ensure the School remains innovative. Table 2 shows the School's EBITDA trend in recent years and our forecast for it over the next few years. We expect it to increase after the completion of the Centre Building development when we can accommodate some modest growth in full time student numbers. A combination of strong student recruitment, a significant and sustained contribution from ancillary activities and strong financial management have delivered substantial surpluses in recent years and 2015-16 continues this pattern. This underlines the strength of the School's operating model and demonstrates that we are well placed financially to deal with our short and longer term challenges and commitments while continuing to invest in our campus.

In an increasingly competitive environment we are pleased to have increased our operating income from fees, grants, research, residences and other operating activities by 6.1 per cent. However, this was exceeded by growth in operating costs of 7.4 per cent and while much of the excess was planned investment in faculty, academic initiatives and student support, tight controls over our indirect costs will be critical during the period of economic uncertainty which lies ahead.

Table 3 – Indicators of financial sustainability

		2015-16 Actual	2014-15 Actual	2013-14 Actual	2012-13 Actual	2011-12 Actual
LEAGUE TABLE MEASURES						
International comparisons	THE World University rankings	TBC	23	34	32	39
	THE World Reputation rankings	24	22	24	25	29
	QS World rankings	37	35	71	68	69
National comparisons	National Student Experience Poll	110	99	92	72	85
	National Student Survey (Question22)	75%	81%	83%	88%	85%
	<i>The Times/Sunday Times</i> Good University Guide	TBC	9	5	3	3
	<i>Guardian</i> University Guide	12	13	7	3	3
	Complete University Guide	3	3	3	3	2
ESTATE MEASURES						
Academic estate (condition categories)	Category A	27%	27%	21%	12%	32%
	Category B	48%	48%	43%	52%	47%
	Category C	25%	25%	36%	36%	40%

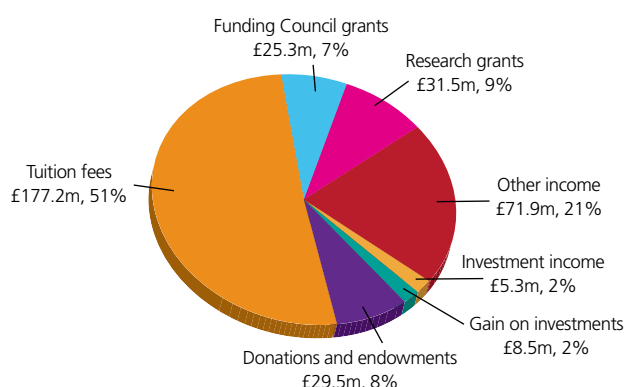
As a result of the Atlantic Philanthropies and Firoz Lalji gifts we received this year, Donation and Endowment income recognised in the year was almost £30m. In addition to securing the future of two of our new interdisciplinary centres, these gifts will provide additional income of £52m over the next five years.

The restated 2014-15 figures shown in Table 1 include a one-off charge related to the School's contribution to the USS pension scheme's past service deficit. The 2015 SORP requires that the present value of the commitment to meet a share of the deficit be recognised in the accounts, which its predecessor did not. The deficit is based on the last triennial valuation in March 2014, but as the new funding arrangements were not agreed until November 2015, it is charged in 2014-15 rather than being reflected as an opening adjustment.

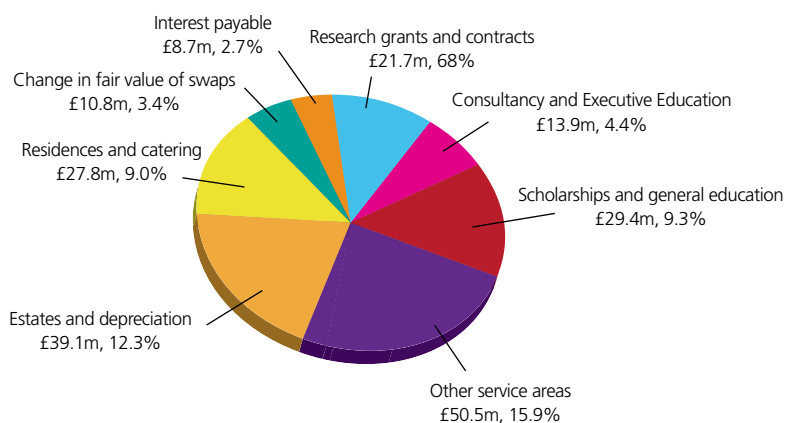
Scope

The financial statements comprise the results of the School, consolidated with the results of its subsidiaries. Our subsidiaries' operations are vacation letting of student accommodation, consultancy services, exploitation of intellectual property, operation of executive education programmes, and overseas fundraising. For commercial, legal and taxation reasons these activities are channelled through limited companies which, where appropriate, transfer their profits to the School through an annual payment of Gift Aid.

2015-16 Income – £349.0m including gain on investments



2015-16 Total expenditure and change in fair value of interest rate swaps £317.9m



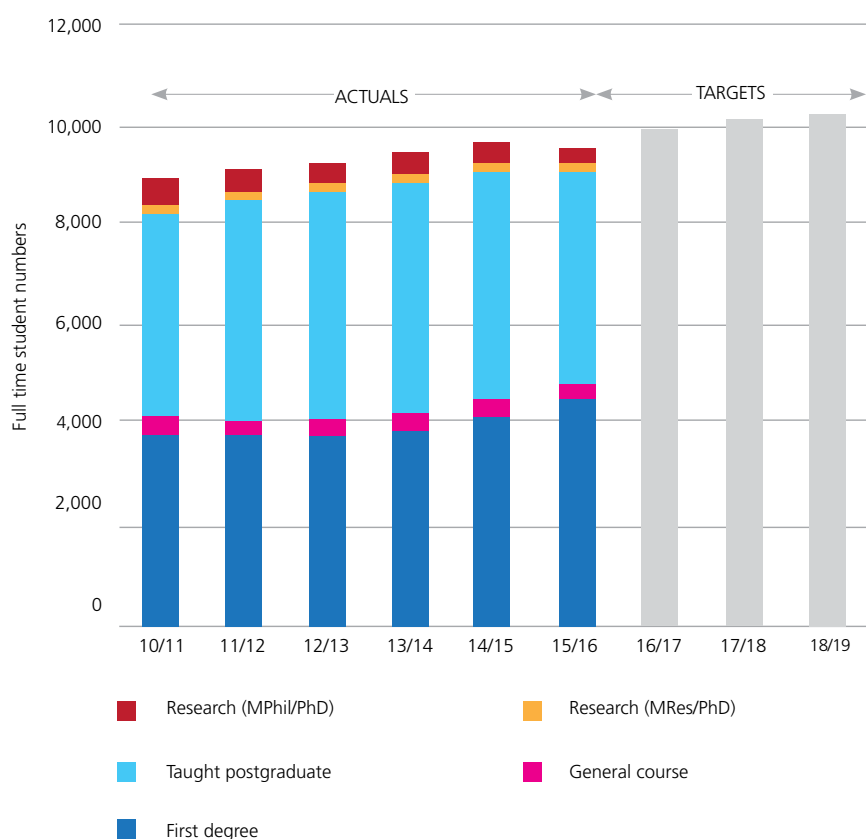
Income

Table 4 – Income analysis 2015-16 and 2014-15

	2015-16		2015-16	2014-15	Change	
	Unrestricted	Restricted	Total	Restated		
	£m	£m	£m	£m	£m	%
Tuition fees	177.1	–	177.1	166.7	+10.6	+6.3%
Funding Council grants	25.3	–	25.3	22.4	+2.9	+12.9%
Research grants	31.5	–	31.5	26.4	+5.1	+19.3%
Other income	71.9	–	71.9	73.0	-1.1	-1.5%
Investment income	3.2	2.1	5.3	4.7	+0.6	+11.3%
Total income before endowments and donations	309.0	2.1	311.1	293.2	18.1	+6.1%
Donations and endowments	2.6	26.9	29.5	10.1	+19.4	+192.1%
Total income	311.6	29.0	340.6	303.3	+37.4	+12.3%

Tuition fees increased by 6.3 per cent year-on-year. Total income grew by 6.1 per cent before donations and endowments. In 2015-16 full time student numbers did not increase significantly, with most of the increase coming from growth in our executive programmes, Summer Schools and changes in fee levels.

Table 5 – Full time students and plans



In addition, the School is a partner in the TRIUM Executive MBA programme with New York University and HEC in Paris. The School's share of this programme is incorporated on a proportional basis.

The LSE Students' Union is a separately constituted body over which the School does not exert significant influence and it is not consolidated in these financial statements.

Ensuring financial sustainability

The School's ambition is to continue as a world leader in research and teaching in the social sciences, so the generation of sustainable surpluses is essential to provide the flexibility necessary to invest in the academic initiatives this ambition requires.

Each year, the School's Council as governing body, approves a 10-year Financial Plan that captures and quantifies the Strategic and Operational plans of the School and sets them alongside a prudent and transparent set of assumptions. The financial results portrayed in the Plan are measured against a range of targets, and then tested against the risks identified in the School's Strategic Risk Register to ensure we have a reasonable expectation of delivering a sustainable long term position. The first year of the 2016 Plan represents the School's operating budget for 2016-17. Any significant investments, such as those proposed for the redevelopment of 44 Lincoln's Inn Fields, or recent investments in improving student experience, are measured and tested against the Plan and where appropriate examined on a standalone basis before any final

decision is made. This allows for a quantified assessment of the sustainability of the individual elements of the Plan and of the Plan as a whole.

As part of this financial planning process a range of financial and non-financial measures including those set out in the next table are tracked and reviewed when the Plan is agreed and regularly thereafter through the year. The move to the 2015 SORP has necessitated modifying them as consistent comparative data is not available at present.

Investing in a world-class estate

Developing the campus and our ambition to orientate it towards Lincoln's Inn Fields is central to the Strategic Plan – we will invest at least £360m over the next 10 years in the redevelopment of the campus, starting with the Centre building site, and continuing with 44 Lincoln's Inn Fields.

Great buildings on campus will provide a world class academic environment for our students

and faculty, facilitating path breaking research, supporting recruitment and retention, creating connections physically and intellectually and enabling innovative and interactive teaching. Off-campus, the School is working to increase the provision of accommodation for our students as we know this is an important part of the LSE experience and a critical factor in attracting the diversity of students that gives the School its unique character.

Funding strategy

The School's strategy is to fund proposed capital development on a portfolio rather than building-by-building basis, using cash flow and cash reserves to leverage external grants and donations and periodically raise cash through long-term debt as required.

Over the past five years we have generated £276m in operating cash (an annual average of 12.6 per cent of income). During the development phase for the Centre Buildings we expect this to fall a little below this

average but once the building is available in 2021 our planned student growth will see this figure rise back to its historic level.

Operating revenues and costs

Undergraduates

The School received nearly 18,000 applications for full time undergraduate study in the academic year 2015-16 (Table 5). We made offers to 21 per cent of applicants and enrolled 9 per cent as new undergraduate students. We have an average of 11.8 applications per place for undergraduate study, a level that has remained strong in recent years.

Postgraduate

At the postgraduate level, we enrolled 3,970 students, two-thirds of whom were from outside the UK and EU. We have an average of just under five applications for every place.

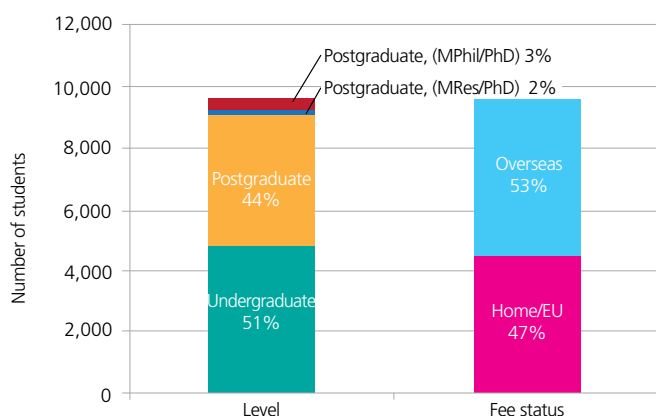
Support for learning – Scholarships and bursaries

The School is recognised by the Economic and Social Research Council as a Doctoral Training Centre (DTC). 2015-16 was the fifth cohort to enter, setting a steady state of 150 funded students. Including the new arrivals to the DTC, the new intake to the School's fully funded studentships and other awards, over 65 per cent of the total number enrolled at the School had full funding. This funding includes a maintenance grant and fees paid from School resources or through external sources such as the Research Councils or philanthropic support.

In 2013 the School launched a new flagship studentship scheme that supports outstanding research students by fully funding their postgraduate research at the School. During 2015-16 the School had 103 new fully funded studentships, 55 per cent of the total number enrolled at the School. This scheme provides for a maintenance grant and fees to be paid from School resources or through external sources such as the Research Councils or philanthropic support.

The School has two flagship funding schemes for doctoral students – its own LSE PhD Studentship scheme which had 173 fully funded students across all years, and the Economic and Social Research Council Doctoral Training Centre (DTC) scheme with a further 150. In addition, PhD students are funded by philanthropic support and other Research Councils and some institutes and departments provide scholarships. All these

Full time students in 2015-16



Origin of full time students in 2015-16

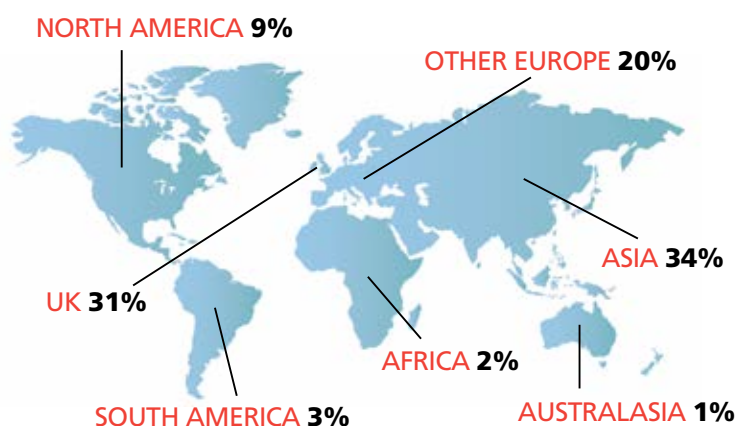


Table 5 – UG and PGT application, offer and enrolment numbers

	2015-16	2014-15	2013-14
UG (first degree)			
Total applications	17,653	17,173	17,137
Total offers	3,667	3,395	2,873
Total enrolments (new entrants)	1,594	1,582	1,398
Registration targets	1,502	1,485	1,241
Applications per place	11.8	11.6	13.8
Enrolment rate (enrolments / offers)%	43%	47%	49%
PGT			
Total applications	19,982	18,797	18,448
Total offers	7,967	8,069	7,805
Total enrolments (new entrants)	3,970	4,261	4,292
Registration targets	4,099	4,087	4,128
Applications per place	4.9	4.6	4.5
Enrolment rate (enrolments / offers)%	50%	53%	55%

awards provide a maintenance grant and fees. Additionally, the School sets aside other funds to support conference attendance and support for the writing up period, available to all PhD students.

Support for learning – New Education Strategy

In 2015 the School launched its 5-year Education Strategy with the three key strategic objectives that:

- 1 LSE departments lead in the provision of excellent disciplinary and interdisciplinary education.
- 2 LSE graduates are well informed, critical, analytically sophisticated and globally employable.
- 3 Students and staff interact to build a dynamic learning community that reflects the School's distinctive identity.

As part of the School's commitment to this strategy an additional investment of over £11m has been earmarked in the School's Financial Plan beginning in 2015-16 with a £3.5m investment in the creation of the innovative LSE LIFE space in our Library and the recruitment of additional staff in our Teaching and Learning Centre.

The first objective of excellent disciplinary education is financially supported through the creation of a career track for academics whose main contribution to LSE will be through leading

courses and programmes that are "excellent". The track was approved at Appointments Committee in June 2016, with the first staff "migrated" from existing "teaching only" roles in August. During 2016-17 academic year, departments will be able to recruit academic staff to the new track for the first time, and will be able to call on transition funding to do this. Nearly £3.0m has been set aside from the financial plan to enable departments to appoint such staff and then integrate them into their staffing budgets over a three year period. In addition, academic contribution pay has been focussed on rewarding academic staff who deliver excellent and innovative education within departmental programmes.

The main capital investment relates to objective two on producing able and sophisticated graduates. The School identified the ground floor of the Library as the ideal place to create an academic, personal and professional development centre, LSE LIFE. This centre opened on schedule and on budget on 19 September and it provides students with one place for all of the development opportunities, resources and support provided by all the different School services. The centre is also a flexible space within which departmental programmes can host the use of innovative assessment methods on their courses or complement their taught provision with applied and experiential learning opportunities.

The investment in education also provides a new Pro-Director "Vision" Fund, of £100,000 p.a. for three years to fund programme-level enhancement projects and institutional research into developing LSE education. Finally, the investment includes professional service staffing to support educational provision at LSE. This includes a team for the LSE LIFE centre, but also a post to provide increased data management capacity to deliver better management information for decisions on educational design and development, a student communications post to develop the channels through which the School communicates with its students, two educational development posts to work with academic staff on their teaching and a small Educational Strategy Unit, to support the Pro-Director Education, and the School more widely, in implementing the Education Strategy.

Higher Education Funding Council of England (HEFCE) grants

The School's primary sources of direct public funding are HEFCE grants and Research Council funding for research projects. HEFCE funding comprises three elements, quality related research funding (QR), teaching funding and knowledge exchange funding, titled Higher Education Innovation Funding (HEIF).

HEFCE funding for teaching is largely confined to HEFCE initiatives to mitigate the impact of fees on the diversity and access of students to higher education and the higher costs of delivering teaching in Central London. The School's research block grant (QR) increased by £2.0m to £18.8m in 2015-16 as a result of our outstanding success in the 2014 Research Excellence Framework (REF). LSE was placed at or close to the top in the rankings of research quality and while this 12.1 per cent increase is welcome we note that academic department costs have risen by 12.5 per cent since 2013-14. This highlights the continuing pressure the School faces to balance the costs of world-class research with the revenues that it generates.

We received £3.0m in 2015-16 in HEIF funding to support Knowledge Exchange. This money is supporting and developing a broad range of knowledge-based interactions between universities and the wider world, which will result in economic and social benefit to the UK. The School welcomes the Funding Council's commitment to this funding stream and we are currently finalising our three-year strategy for its deployment.

Research grants and contracts

2015-16 has been a successful year for research at LSE. A strategy to grow our grants portfolio has seen increased funding from Research Council UK (RCUK) and other UK government sources. This along with an increase in commissioned research by the Department for International Development (DfID) funded International Growth Centre, helps to push research income over the £30m mark for the first time. A further £1.1m research income generated by the School's subsidiary, LSE Enterprise Ltd, takes the consolidated group income to £31.5m.

The School continues its success under the Horizon 2020 and other European Commission programmes. Eighteen new awards with a contract value of £10.6m commenced during the year.

The Centre for Economic Performance, funded by the Economic and Social Research Council (ESRC) since 1990, has secured continuation funding for a further five years to October 2020.

The introduction of FRS102 has a relatively small impact on the reporting of research grant income, with the 2014-15 accounts being restated from £27.1m to £26.4m.

Funding for research will be a particular focus for the coming year as we continue to assess the implications of the EU referendum. Although the Treasury's commitment to underwrite awards is welcome news, at least in the short term, we are lobbying for the UK government to support science and research in its Brexit negotiations.

Our success rate in converting research applications continues to exceed 24 per cent.

Other income

Table 6 – Analysis of Other Income

	2015-16	2014-15	Change	
	£m	£m	£m	%
Residences and catering	36.2	35.6	0.6	2%
University of London International Programmes	10.2	10.7	(0.5)	-4%
LSE Enterprise Ltd	6.2	7.6	(1.4)	-18%
Other service rendered and other activities	19.3	19.2	(0.1)	0%
	71.9	73.1	(1.2)	-2%

The School derives significant value from its academic reputation and resources, through additional activities such as the operation of student residences, catering and consultancy activities (table 6). As well as attracting staff and students, these activities make a valuable contribution to the financial health to the School, contributing over a fifth of the School's income. The lower than inflation increase in residence and catering income reflects the impact of closing part of the campus during the Centre Building redevelopment and timing differences between each year's Summer School revenue. Other Services Rendered income fell following the cessation of a business stream and the one-off financial returns generated in 2014-15.

Residence and catering

With over 4,000 bed spaces in 12 halls of residence and in University of London halls, the School is able to offer a guaranteed place to all first year undergraduate students and accommodate 41 per cent of all full time students. Unlike the numerous commercial providers of student accommodation in London, we can offer 31 week contracts to undergraduate students making our residences far more affordable. We are able to do this by generating income from operating many of our halls on a commercial basis during vacation periods.

The offer of affordable accommodation to our students is central to our recruitment strategy and, through a partnership with Urbanest we provided 484 additional beds at Westminster Bridge from September 2015. We aim to add more places in the coming years through a combination of partnership agreements and, where affordable, developing our own halls.



LSE Enterprise Limited

The School is keen to apply the social science expertise of LSE academics to researching and resolving issues across as wide a range of policy, social and business areas as possible, and where appropriate to do this on a commercial basis. During 2015-16 £1.5m was paid to the School through Gift Aid, £0.8m as a contribution to the School's general reserves and £0.7m earmarked for further investment in academic research.

The International Growth Centre

Other Income includes £10.4m (2014-15 – £6.3m) related to the School's International Growth Centre (IGC) partnership with the DfID. This partnership promotes sustainable growth in developing countries by providing demand-led policy advice and research. In total the £51m investment by DfID over four years has enabled the School to establish 15 in-country programmes in 14 countries (Bangladesh, Ethiopia, Ghana, India (Bihar state and Central), Liberia, Mozambique, Myanmar, Pakistan, Rwanda, Sierra Leone, South Sudan, Uganda, Tanzania and Zambia) as well as 10 research programmes spanning topics such as trade, agriculture, macroeconomics and human capital.

Summer Schools

Amongst the most successful of our non-traditional educational activities is our London Summer School Programme, which once again saw increased numbers this year. We now run three sessions, each of three weeks' duration, in June, July and August. With 6,143 students attending this year, it is the largest university summer school in the UK and is enormously diverse. The LSE Summer School means that the campus remains intensively used during the summer, with strong demand for rooms in our residences. In addition to this, a separate Executive School attracted 284 students.

Two overseas schools also operated during 2015-16, in Beijing and Cape Town, with 373 students attending.

International Programme

Under a collaboration agreement, the School participates in the University of London International Programme, which sees our academic material taught under the University of London badge to over 20,000 students around the globe annually. This study leads to the award of a University of London degree via distance learning. The School plays a key role in

the direction and quality assurance processes of the programmes in which it is involved.

Investment Income

Investment income comprises investment returns from: working capital cash balances held on deposit; coupons from the bond portfolios we hold to fund our capital development programme and our short-term endowment commitments; and dividends from equity investments held for long-term growth. The School adopts a "total return" approach to the investment of its long-term funds, so a significant proportion of returns are unrealised and reported as Gains on Investment in the Statement of Comprehensive Income and Expenditure. The bonds in our capital development portfolio will be held to maturity, so are not reported at their market value at the balance sheet date.

Investment performance continues to deliver excellent results despite significant market volatility during 2015-16. In 2015-16 the Growth Portfolio unit price appreciated 9.8 per cent and, when combined with our Gift-matching (shorter term investment duration) portfolio achieved a 9.1 per cent return. Over

five years the Growth Portfolio has returned 8.0 per cent per annum.

Endowment and donations received in 2015-16

The presentation of philanthropic gifts to the School in the financial statements can be difficult to follow, though a little less so with adoption of the 2015 SORP. In summary, endowments and grants are recognised in the SOCI as they are received unless they relate to a capital grant, in which case the funds are recorded as deferred income until the project is complete, when the income is reported in the SOCI.

Building on last year's success in securing £30m funding from Paul Marshall to establish the Marshall Institute for Philanthropy and Social Entrepreneurship, this year has seen two more large gifts. The Firoz and Najma Lalji Foundation has given £10m to name and support the Firoz Lalji Centre for Africa; and the Atlantic Philanthropies Foundation has given £64.4m to support the Atlantic Fellows programme, which will train the next generation of leaders seeking to influence and facilitate changes in global policy and practice to enable greater equality, opportunity and

Table 7 – Summary of investment returns split between restricted and unrestricted funds

	Unrestricted funds	Restricted funds	2015-16 total	2014-15
	£m	£m	£m	£m
Investment income	3.1	2.2	5.3	4.7
Gain on investments	1.4	7.1	8.5	4.4
Return	4.5	9.3	13.8	9.1
Investments	154.2	98.8	253.0	241.5
Cash and cash equivalents	40.4	20.4	60.8	42.6
	194.6	119.2	313.8	284.1

Table 8 – Summary of gifts and donations received in 2015-16

	£m
Atlantic Philanthropies	20.4
Firoz Lalji Centre for Africa	2.1
Ludwig Lachman Research Fellowship	1.3
Annual Fund	1.2
Frank Robert Anton Memorial Award	0.6
Lee Family MSC scholarship Fund	0.5
Professor Saw Swee Hock-South East Asia Centre	0.4
Named scholarships	0.4
Others	2.6
	29.5

outcomes for all. This is the largest ever donation to the School and firmly establishes fundraising as a core component in the financial planning for the School's future.

The Marshall gift consists of £10m to fund the Marshall Institute for Philanthropy and Social Entrepreneurship and a £20m contribution to the 44 Lincoln's Inn Field/ Paul Marshall Building. As at 31 July 2016, £6m had been received: £2m was recorded (in 2014-15) as income and £4m as deferred income which will be released to income upon completion of 44 Lincoln's Inn Fields.

In addition to these magnificent gifts, 2015-16 was a record year for the School's Annual Fund which, with other fundraising, brought the total cash received in the year to nearly £30m, the highest ever achieved.

Socially Responsible Investment Policy

During 2015-16 the School developed and adopted a new Socially Responsible Investment Policy (SRIP). The School has adopted the six UN Principles for Responsible Investing, recognising that doing so is an effort to better align it as an investor with broader objectives of a better society. Consistent with the LSE Council's statutory fiduciary responsibilities as charity trustees, the School will specifically:

- Avoid direct investments made in tobacco manufacture or indiscriminate armaments and in companies whose business is significantly focused on extraction of thermal coal or tar sands.
- Seek to reduce, as far as possible, investments placed indirectly through investment funds in these companies.
- Explore opportunities to collaborate with other universities to encourage fund managers to develop new socially responsible investment products.

In addition to representing the School's desire to avoid supporting industries which do direct harm through indiscriminate arms and tobacco manufacture, this represents a positive commitment from LSE to support the transition to the low-carbon economy. We are proud of our rigorous and innovative academic contributions on climate change and the environment, and also of our own high environmental standards on campus, and it is right that our investment policy reflects this work. Our investment approach and assets held are set out later in this report.

Expenditure

Total operating expenditure, as defined by the 2015 SORP, increased by 1.3 per cent; however, that overlooks the one-off impact in 2014-15 of the charge related to the USS pension scheme. Without this distortion, total expenditure would have increased by 7.2 per cent, significantly faster than underlying income growth. This is the result of a range of planned investments including hiring additional faculty, investment in the Education Strategy and the creation of a number of inter-disciplinary Institutes and Centres.

	2015-16	2014-15 Restated	Change	
	£m	£m	£m	%
Staff costs	167.0	157.3	+9.7	+4.9%
Net movement in pension provisions	3.9	19.1	-15.2	-80.0%
Other operating expenses	116.4	107.1	+9.3	+8.7%
Operating expenses	287.3	283.5	+3.8	+1.3%
Depreciation	11.2	10.2	+1.0	+9.8
Interest and other finance costs	8.7	8.1	+0.6	+7.4%
Total expenditure before other gains and losses	307.2	301.8	+5.4	+1.8%

Pension schemes

LSE staff are eligible to join the Universities Superannuation Scheme (USS) or the Superannuation Arrangements of the University of London (SAUL), depending on the grade of their post and the restrictions imposed by USS.

At their last triennial valuations both schemes reported deficits: USS £5.3bn and SAUL £60m. After extensive consultation USS closed its final salary section for all members with effect from 1 April 2016, introduced a salary cap of £55,000 on defined benefits contributions and increased the employer and employee contribution rates to 18 per cent and 8 per cent respectively. On 1 April 2016 SAUL closed their final salary scheme and now offer an uncapped "career averaged revalued earnings" (CARE) scheme for contribution rates of 16 per cent and 6 per cent for employers and employees respectively.

As the School is contributing to a deficit repayment plan for both schemes, the estimated present value of our commitments to enhanced future contributions are required, under the 2015 SORP, to be recognised in the financial statements. Based on our estimates of future pay costs and a suitable discount factor (see

Staff costs

An academic institution's most valuable resource is its staff – our salary and related costs to sustain them in 2015-16 were £167.0m and staff costs as a proportion of income rose by 0.7 percentage points to 53.6 per cent.

Year-on-year staff costs increased by 6.2 per cent reflecting 141 (3.4 per cent) additional full time equivalent staff members and 3.2 per cent relating to the annual pay award, automatic pay increments, discretionary pay awards, the impact of the changes in the USS and SAUL pension schemes and national insurance employer contributions.

note 18), these provisions are £37.5m and £1.2m at 31 July 2016 for USS and SAUL respectively. This is not the same as the School's share of the total scheme deficit which, as it is not separately identifiable, does not require disclosure.

Low gilt yields continue to put upward pressure on the valuation of both schemes' liabilities, further widening the funding gap. The latest estimates suggest USS and SAUL have deficits of £10.0bn and £203m respectively. The next triennial valuation due in March 2017 is likely to lead to further changes to benefits and/or contributions. The School remains committed to the provision of attractive, robust and cost effective pension arrangements for all its staff and will work constructively with all stakeholders to ensure that the School's contributions do this in the most effective manner possible.

Equity and Diversity

LSE is committed to building a diverse, equitable and truly inclusive university.

Through the implementation of transparent policies, practices and procedures, the School has due regard to our duties under the Equality Act 2010, and to the protected characteristics detailed in the Act. The School seeks to fulfil

this commitment by ensuring that our policies, training and development reflect the principles laid down in this statement, as well as our obligations under the law.

The School is committed to embedding and mainstreaming equity, diversity and inclusion. This includes communicating and monitoring policies, procedures and practices, to ensure that all are inclusive and equitable, that the record of the School is understood and evaluated effectively, that information is published and made available, that good practice is shared, that complaints are taken seriously and action is taken, and that new initiatives are proposed and implemented to foster equitable treatment for all at LSE.

This policy is applicable to all students, staff, applicants and visitors. The principles of non-discrimination and equity also apply to the way in which staff and students should treat each other, visitors, contractors, service providers, suppliers, former staff and students and any other persons associated with the functions of the School.

Other operating expenses

Other costs, which include expenditure on academic departments, institutes, subsidiary company activities, student accommodation, bursaries and premises costs, have increased by £9.3m (8.7 per cent) from last year (Table 9). Within that large increase: scholarships,

and bursary spend increased by £1.8m (8.6 per cent) to £22.5m; spend on the School's refurbishment programme and investment to reduce carbon emissions increased £2.2m; and the School leased additional space, on a short term basis to accommodate new initiatives such as the interdisciplinary Institutes and to allow for the relocation of staff while the Centre Buildings are redeveloped. These leases will end shortly after the Centre Buildings and 44 Lincoln's Inn Fields projects are completed.

Depreciation

Depreciation over the last five years has grown from 3.4 per cent to 3.6 per cent of total expenditure and is set to increase further over the next five years, reflecting the School's investment in infrastructure and equipment.

Interest payable

Interest payable comprises interest payments on the School's borrowings and, for the first time in 2015-16, an interest charge based on the agreed future contributions relating to pension scheme past service deficits.

Procurement

The School continues to look for savings and value for money opportunities to make the most effective use of its resources. The procurement team have delivered savings of over £3m in each of the last two years (annual savings based on comparison with average tendered, or incumbent supplier charges). In 2014-15 (the most recent available data) the team achieved a procurement influence of 83 per cent against £60.5m of spending which could potentially be influenced by procurement processes.



Our sustainable procurement goal is to procure goods and services in ways that maximise efficiency and effectiveness while minimising social, environmental and other risks.

At the year end the amount due to trade creditors was equivalent to 14 days of purchases from suppliers. Nothing was due to be paid under the Late Payments of Commercial Debts (Interest) Act 1998. The School's policy is to pay agreed invoices in accordance with the agreed terms of payment, which are available on the School's website.

Balance sheet

We are pleased to report continued strength in the School's consolidated balance sheet. Our strategy is to ensure that the balance sheet remains strong to ensure we remain an attractive partner for long-term funding, be it from those offering philanthropic partnership, government grants or financial investors.

Capital programme and estates maintenance

2015-16

	£m
Redevelopment of Centre Buildings (total project cost £125m)	11.5
Library developments	5.6
5 Lincoln's Inn Fields	8.3
Other	2.1
	27.5

We aim to secure an estate and other facilities commensurate with our standing and aspirations. Our ambition is that our estate be judged of good and functionally suitable condition. To this end, we continue to invest significant resource in refurbishment and capital development. Alongside capital developments, the School spends in excess of £6m per annum on long term maintenance across the estate.

During 2015-16, £27.5m was invested in buildings and equipment comprising three significant investments:

- The demolition of the old Centre Buildings and site clearance in preparation for the new building.
- In our Library, the fourth floor was converted into additional student study and work space and on the ground floor an innovative new centre for academic, personal, and professional development – LSE LIFE – has been created.

Table 9 – Summary balance sheet (group)	Changes			
	2016	2015	+/-	%
	£m	£m	£m	
Tangible and intangible assets	438.5	422.1	+16.4	+3.9%
Investments	253.0	241.6	+11.4	+4.7%
Total non-current assets	691.5	663.7	+27.9	+4.2%
Current assets				
Stock	0.1	0.1	+0.0	+0.0%
Debtors	20.2	21.0	-0.8	-3.8%
Cash and cash equivalents	60.8	42.6	+18.2	+42.7%
Total current assets	81.1	63.7	+17.5	+27.3%
Creditors: falling due within 1 year	-97.8	-96.6	-1.2	+1.2%
Net current assets	-16.7	-32.9	+16.2	-49.2%
Total assets less current liabilities	674.9	630.7	+44.2	+7.0%
Creditors: falling due after 1 year	-187.0	-178.3	-8.7	+4.9%
Pension provision	-38.8	-34.4	-4.4	+12.8%
NET ASSETS	449.1	418.0	+31.1	+7.4%
Restricted reserves	120.8	90.7	+30.2	+33%
General reserve	328.3	327.3	+1.0	+0.3%
TOTAL FUNDS	449.1	418.0	+31.1	+7.4%

- The acquisition of a property on the north side of Lincoln's Inn Fields that is now housing the Marshall Institute for Philanthropy and Social Entrepreneurship.

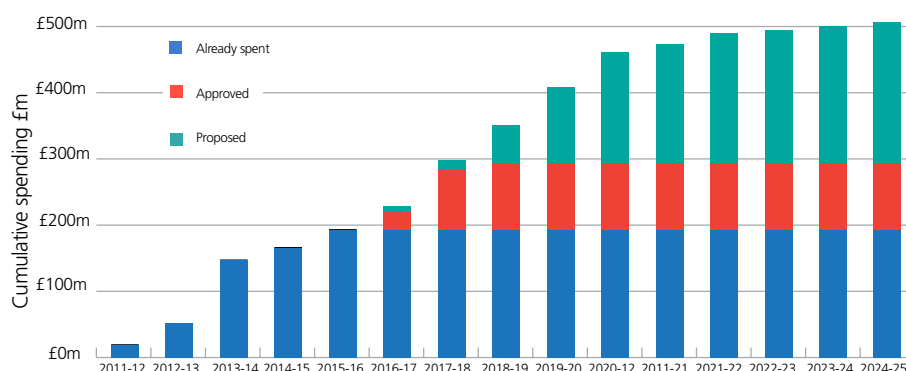
In 2015-16 work began to plan the development of the 44 Lincoln's Inn Fields site. An architectural competition was run under the auspices of the Royal Institute of British Architects and, in April 2016, LSE announced that Dublin based practice Grafton Architects had been selected as winners. This exciting new development for the School will house the departments of Accounting, Finance, Management, their associated research centres and the Marshall Institute for Philanthropy and Social Entrepreneurship.

FRS 102 permits the "rebasings of property or classes of property to market value on 1 August 2014". After careful consideration the Finance Committee concluded that, while the market value of the School's estate is realistically higher than book value, this would not provide the reader with any better understanding of the School or its finances so we will continue to report our fixed assets at their historic cost. The option to adopt a revaluation policy remains available and it will be considered periodically in future.

Cash

The generation of cash to meet current and future obligations as they fall due is the life

15-year campus investment programme (cumulative)



blood of any well run organisation. Without it, however strong the academic reputation or the quality of its infrastructure, the School will not be financially robust and sustainable and will lack the flexibility to invest in faculty, initiatives and infrastructure. Our strategy is to make our cash balances work hard before they are required to fund our capital plans.

Taxation

The School is an exempt charity within the meaning of the Trustee Investment and Charities Act 2005 and recognised as a charity by HM Revenue and Customs. Commercial trading activities undertaken by the School are operated through its subsidiary companies and attract VAT where applicable. Indirect tax (VAT) and payroll taxes (PAYE and National insurance contributions) collected and paid amounted to £9m and £46m respectively. As we receive £51m from HEFCE Research Councils and government departments, we are a net contributor to HM Treasury.

Risk

Understanding our risks

The School's mission of discovering, advancing and disseminating knowledge to address major socio-economic challenges across the globe will always carry certain risks. Effective risk

management increases the likelihood of the successful achievement of the School's strategic objectives, whilst at the same time protecting its reputation and sustainability.

Risk management Processes

The School Management Committee (SMC) monitors and reviews emerging and changing risks throughout the year. Its process are reviewed by Audit Committee, and a termly report is made to Council. The most recent update was approved at Council meeting on 7 June 2016.

The Strategic Risk Register acts as the main tool for the evaluation of risk. The management of each strategic risk is formally assessed by the risk owner at least once each term and reviewed by the SMC, which ensures that the risks are being actively managed, with the appropriate strategies in place. The Strategic Risk Register aligns with the School Strategic Plan 2020.

Each strategic risk (SR) is graded with a level of risk tolerance. Once tolerance has been defined, SMC evaluates what action needs to be taken to address the risk. The School's approach is to minimise its exposure to reputational, compliance and financial risk, while accepting and encouraging an increased degree of risk in pursuit of its mission and objectives.

It recognises that its tolerance for risk varies according to the activity undertaken.

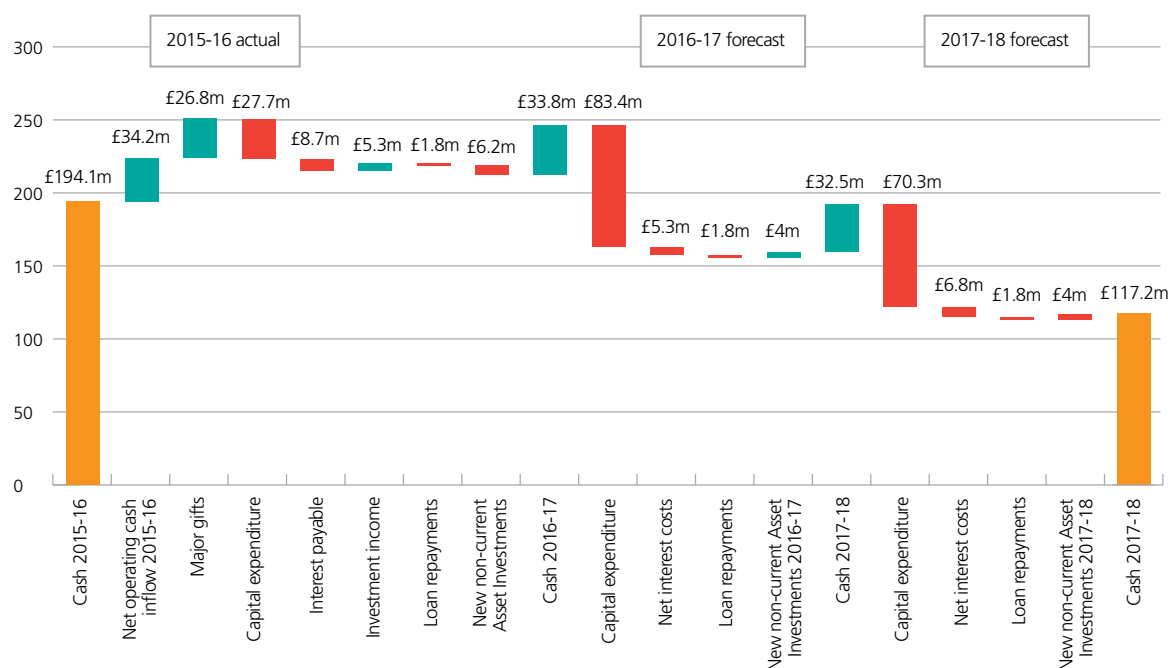
Professional service area risk registers ensure key operational risks are identified and managed at the appropriate level within the organisation. High-profile operational risks are monitored by SMC in the central Operational Risk Register. Internal Audit undertakes reviews of key areas throughout the year which are reported to the School's Audit Committee. Academic Risks are monitored through the School's Annual Monitoring exercise.

All major projects have individual risk registers and risk assessment is incorporated into planning and decision-making processes. Risk assessment training and awareness is promoted through the management structure by the Risk Manager.

Strategic Risks

The result of the vote on the United Kingdom's position in the European Union on 23 June 2016 (Brexit) presents both risks and opportunities to the School's strategic aims. With its potential to restrict the freedom of movement of EU students and staff, not to mention the impact on access to funding and legislative structures, there is no doubt that Brexit could change the entire environment in which the School operates. The persistence of uncertainty will doubtless bring short and

Table 10 – Actual cash inflows and outflows 2015-2016 and forecast cash flows 2016 – 2018



medium term challenges, but it is clear that the School will need to take a strategic view of the threats and opportunities in order to generate positive longer term outcomes. The Directorate continues to co-ordinate work on the immediate impact of Brexit across the full range of the School's activities, considering the implications for; student and staff recruitment and retention in 2016-17 and 2017-18; research grant applications in development and awards held for EU funded research projects; capital projects underway and short-term philanthropic giving.

In this context, the School's Strategic Risk Register explores risks to its business model under three main headings: Recruitment, Business Model and Research.

Recruitment

- SR1: That fewer high quality students choose LSE because of educational factors.
- SR2: That fewer high quality students choose LSE because of competitive and related factors.
- SR3: That the School lacks consistency in innovating and monitoring the academic portfolio.

The School remains mindful that student dissatisfaction with teaching quality and educational experience may affect the long term perception of the value of a School degree in terms of employability and relevance. Other internal factors, such as established structures for programme allocation, may affect the School's income from student fees.

The international profile of its student body means that the School monitors issues such as the UK Border Agency's student visa policy, and the way political language around immigration might foment a hostile environment to foreign staff and students, particularly following on from Brexit, as external factors which may deter some students from applying to study in the UK. An over-reliance on key markets may also make the School vulnerable to developments by global competitors, or geo-political events.

Business model

- SR4: That the School fails to generate enough revenue from other activities to support academic excellence or innovation.
- SR5: That the School is unable to offset increases in costs with sufficient revenue growth to keep up with better funded competitors, further loss of public funding, and spiralling costs (eg, pensions).

The School is aware of increasingly strong competition facing its ancillary programmes, both in the UK and abroad, and the emergence of private providers remains an issue that will need to be monitored carefully in the coming years. The drive to diversify revenue away from student fees has also led to an increased focus on philanthropic development.

School employees participate in two pension schemes, USS and SAUL. While some steps have been taken by trustees to improve the long-term sustainability of these schemes, concerns remain about their long term sustainability.

In terms of Brexit, the respective Project Boards for the Centre Buildings Redevelopment and 44 LIF projects continue to closely monitor the potential and real implications on budgeted costs and other related risks.

Research

- SR6: That the School's research quality, reputation and impact decline. The cuts to research grants and public funding, and LSE's ranking in the REF exercise refer.
- SR7: That the School fails to maintain the academic quality of LSE faculty.

The School continues to face serious competition to recruit and retain its best faculty. The challenge remains to ensure that an effective reward policy is developed to attract new talent and retain existing faculty while ensuring long-term affordability. The establishment of REF Strategy Committee as a standing committee of the School allows long term planning and control of research issues, while the School continues with its rigorous approach to research mentoring and appraisal. The continuing work on support and incentives for externally funded research also mitigates these risks.

In terms of the impact of Brexit on research, the School still benefits from EU funding until the UK leaves the EU and the UK government has agreed to underwrite any existing funding that might otherwise have been jeopardised in the exit process. The School will aim to increase grant applications to UK research councils, as well as increase efforts to gain funding from foundations and other philanthropic sources. The Russell Group has identified that its overall priority is to secure full associated country status for the UK participation in EU programmes. Eleven non-EU states, including Iceland and Norway, participate in Horizon 2020 on the same basis as Member States, and funding under the programme is available globally.

The School will continue to monitor the impact of the impending Brexit on staff recruitment, both in terms of any likely visa changes and the effects of the tone of the debate on immigration. Irrespective of the funding environment, a serious risk to the School is of a "talent drain" of academic staff. Any strategy for research must address this risk at its core, as the loss of key staff could affect the standing of the School relative to other research institutions.

Public benefit

In this section we set out some of the many ways in which the School delivers public benefit. 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.

Our beneficiaries

The beneficiaries of LSE activities include students who benefit from their education at LSE, academia as a whole which benefits from research, and broader society which 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 and college 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 students.

LSE works with schools and colleges in the UK and offers a range of activities aimed at students, 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. These initiatives include the following:

Visits to schools and colleges – LSE works with schools and colleges in order to provide bespoke sessions to raise awareness of higher education, to raise aspirations and motivate students. Popular topics include: thinking about and choosing your university; the UCAS application process; student finance and budgeting; student life; applying to and studying at LSE; and personal statement workshops.

LSE Choice – LSE's flagship widening participation enrichment programme for students in Years 12 and 13. Held at LSE's Campus, this programme works intensively with a cohort of up to 180 students each year to provide stretching academic input and the tools for successful application to LSE and other Russell Group universities.

Moving On – aims to ease students' transition from primary to secondary school by showing that change happens throughout life and can be a positive experience. It also serves as an opportunity to familiarise young people with higher education. It includes activities to promote independence and resilience, takes in a campus tour and culminates in a "graduation ceremony".

Student tutoring – LSE students work in schools, under the supervision of teachers, to help students with their academic work. Tutoring usually involves LSE students tutoring for approximately an hour per week at a school or college for a nine-week period, working with students on a one-to-one or small group basis. The scheme benefits both the school children (in Years 6 to 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, most of which are supported by current LSE students working with staff, include:

- The LSE Mentoring Scheme – aims inter alia to help mentees to improve their performance in key stage assessments and at GCSE and A Level.
- Introduction to Social Sciences – a one-day programme aimed at Year 10-12 students to support their A Level and university choices.
- Promoting Potential – the Programme, comprising a three-day Spring School and two further top-up days, provides opportunities for African-Caribbean boys from state

secondary schools to explore the range of subjects available to them at university. The programme also supports participants further development of key skills including research, networking and debating.

- The Black Achievement Conference – held during Black History Month, this event for students in Years 10-12 and their parents carers highlights the positive achievements in the black community. It focuses on inspiring children to "aim high" and make informed choices to reach their potential when planning for their future.
- Preparing for a College Education (ACE) and ACE High Days.
- Year 11 Summer School – a social sciences Summer School providing students with the opportunity to experience some of the subjects available at LSE including Economics, History, Sociology, Government and Law.
- Pathways to Law (London), delivered in partnership with University College London, The Legal Education Foundation (formerly The College of Law) and The Sutton Trust.
- Alison Wetherfield Law Programme – this law programme comprises specialist law master classes and a national conference for students in Years 12 and 13.
- The Politics Conference
- BSc Management Taster Day
- Student shadowing
- Open days
- Public lectures
- Advising the Advisors Conference (information and guidance for teachers).
- Routes into Languages
- LSE FOCUS – a newsletter for schools and colleges.
- Email an Alum – first-hand advice from graduates on what to expect at LSE and where an LSE education might lead.

Financial support

LSE is committed to ensuring that students from all social and economic backgrounds continue to apply to the School and that no-one is deterred from doing so because of financial considerations. Tuition fees are top-sliced to provide a generous scholarships budget with schemes in place to fund undergraduates and

postgraduates. The School's Access Agreement for 2016 continues to build on past success, committing half of the additional fee income created by the introduction of variable fees (for UK and other EU undergraduates) in 2006, to be used for undergraduate bursaries, outreach and on-course support. The bursaries are available for all students in receipt of a full or partial means tested maintenance loan and do not have to be repaid.

Overseas undergraduates and taught postgraduates from all backgrounds are able to access additional School schemes, which provide awards with a range of values assessed on need. There is a separate extensive scheme for PhD students. In addition, the School has a range of scholarships, funded by external donors and foundations, which again support study at all levels. On-course financial help is available, in the form of the School's Student Support Fund. This fund was spent in full in 2015-16, owing to the School's ongoing commitment to support PhD students in their writing-up period, and to its deployment in cases previously served by the Government's Access to Learning Scheme.

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. Everyone is welcome to attend LSE's public events, where some of the most influential figures in the social sciences and public life can be heard. LSE's Public Events programme includes lectures, debates, discussions and concerts. In order to maximise the opportunity for those outside 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 channels such as Twitter, Facebook, RSS, iTunes, Soundcloud, Mixcloud, YouTube, etc.

In 2015-16, there were 11.9 million views of the School's rich media offerings via video and audio podcast.

Arts and LSE's 120th anniversary

LSE has an open campus in the heart of London, generously furnished with an interesting range of sculptures and installations for all to enjoy. The works continue to be accessible to the public through their inclusion in StatueFindr, an app providing a guide to public works of art in Westminster. The School provides a range of other 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 “Space for Thought” Literary Festival. This year’s theme was Utopias and speakers included Robert Harris, Professor A C Grayling, David Aaronovitch and Anna Pavord. Events for children featured the Moomins and Alice in Wonderland.

LSE opened its doors to students for the first time on 10 October 1895. The LSE 120th anniversary programme sought to raise awareness of the School’s history and heritage among students, staff, alumni and the general public. The programme included a history timeline and in-depth history blogs, widely shared on social media, a pop up exhibition and the introduction of a campus history tour. LSE was also the subject of a BBC Proms interval talk in September 2015.

The extensive Centre Buildings project provided an opportunity to discover what lies beneath the LSE. The excavation was carried out by Archaeology South-East / CAA based at UCL and was an opportunity to find out more about the peripheral areas of Saxon Lundenwic. The dig uncovered 2,000 pieces of pottery; over 8,000 pieces of animal bone and approximately 3,000 fragments of Roman and Saxon building material from around 1,000 archaeological features. Assessment will take place in the coming year but initial assessments indicate evidence for three main periods of activity; the Middle – Late Saxon period (c 700-1000

AD); the medieval period (c 1066-1600) and the post-medieval period (c 1600-1900).

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 2015-16, the Centre saw a huge amount of interest from students who wanted to get involved in volunteering and our research shows that over 37 per cent of them do during their time at LSE, including 48 per cent of LSE undergraduates. We had almost 800 students attend our two volunteering fairs.

LSE students complete a wide range of roles including mentoring, campaigning, fundraising, marketing, research and many more. The Volunteer Centre has worked with over 400 charities this year to help them recruit volunteers, invited over 80 charities onto campus for volunteering fairs, panels and other events and hosted an event to celebrate the commitment of LSE students to volunteering and fundraising.

Students’ feedback indicates that when they volunteer their skills improve, it improves their LSE experience, they are more likely to feel part of the university, and more likely to feel that they are making a difference in their communities. We are proud to be making a difference, both to the students and to those reached by their volunteering.

Library

LSE Library is one of the largest social sciences libraries in Europe, with designated status from Arts Council England, and unusually amongst university libraries it is open to members of the public who need to use its collections. Since opening the new exhibitions gallery in May 2015 at the entrance to the building the Library has curated four exhibitions, including “Women, Peace, and Security” and “Charles Booth’s London: mapping Victorian lives”. Each exhibition has been open to the public, free of charge and has been accompanied by a range of lectures as part of the LSE public lecture series attended by over 600 people.

We have also loaned items from the collections for exhibitions at other institutions including one of the suffrage banners titled “Dare to be Free” to the Whitworth Gallery, Manchester; over 20 items from our Kibbo Kift archives to the Whitechapel Art Gallery, London; and a notebook from the Booth collection to the Museum of Childhood, London.

The Library has developed an education and outreach programme to build on our existing work with schools and community groups. Activities have included facilitated archival research and A-level course work support, “History of Feminism” GCSE handling and debate workshops, and introductions to the Women’s Library. So far we have provided enriching learning experiences for over 600 secondary school students and nearly 200 adult learners. We have continued to support LSE’s Widening Participation programmes, hosting visits, tours and training for hundreds of school-aged students interested in pursuing higher education.



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 following:

- The prevention and relief of poverty: the International Growth Centre, the Centre for the Analysis of Social Exclusion, the Centre for Economic Performance, and the Department for 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: LSE Cities, the Centre for the Analysis of Social Exclusion, the Marshall Institute for Philanthropy and Social Entrepreneurship, the International Inequalities Institute and the What Works Centre for Local Economic Development.

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

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: the Centre for the Analysis of Social Exclusion, LSE Health and Social Care, the Department of International Development, the International Growth Centre, the Centre for Economic Performance, and the Suntory and Toyota International Centre for Economics and Related Disciplines.

Research that has hit the headlines in the past year includes:

- World-first study by Dr Sara Evans-Lacko revealing that workplace depression is a major global issue, costing countries and companies billions of dollars;
- Research by LSE's Department of Management showing that home working loses its appeal for both companies and staff over time as it becomes the "norm" rather than the "exception";
- Dr Grace Lordan's paper on regular brisk walking being the best exercise to keep weight down, compared to other forms of exercise;
- Professor Emily Jackson's HEIF project in which a fictional beauty brand called Timeless in a "pop-up" shop in London's Old Street Station engaged women with the issue of how social egg freezing might impact work, relationships and society;
- Paper from Professor Walter Holland (LSE Health and Social Care) on routine NHS health checks wasting money;
- Dr Leo Cheliotis's paper on migration which revealed that Greek border controls allowed migrants to bypass them and may have been part of a deliberate policy to boost domestic economies and garner party-political support;
- LSE Gender Commission report which called for radical change to make significant progress in closing the inequality gap;
- LSE's International Inequalities Institute study showing that women make up a smaller and smaller fraction of those with high incomes, the closer you get to the top;
- LSE research from Dr Rosalind Arden proving that dogs – like people – have measurable IQs and their intelligence can be tested;
- Professor Michael Murphy's research showing that different levels of migration have not led to different rates of population ageing within the UK population;
- LSE London report showing that buy-to-let tax changes will push up the rents of sitting tenants;

- Department of Sociology report showing there are relatively few working class actors and that they earn less than their middle class equivalents because of a "class ceiling".

Thank you

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. The School is indebted to the enthusiasm and engagement of members of the LSE Council, who receive no remuneration for their services as charity trustees.

Corporate Governance and Internal Control Statement

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

Status of the School

The School is an exempt charity and a company limited by guarantee. The Higher Education Funding Council for England (HEFCE) is the Principal Regulator of the School as an exempt charity. Members of Council are our charity trustees and as such are required to discharge their duties with prudence and care and always act in the best interests of the School, ensuring that its income and property are applied only for the purposes set out in the Memorandum and Articles of Association, that its funds are invested in accordance with the power of investment granted by the Trustee Act 2000 and Memorandum and Articles, to accept ultimate responsibility for the affairs of the School and regularly review its effectiveness. Some of the ways in which the LSE as a charity delivers public benefit are set out elsewhere in these Accounts.

The School is a "public university" insofar as it continues to derive a proportion of its income, albeit relatively modest, from government subsidies; primarily as rewards for assessed research performance. The School is subject to the conditions set out in HEFCE's Memorandum of Assurance and Accountability between HEFCE and Institutions for receipt of HEFCE grants. These conditions have been met in full during 2015-16. The School applied the Committee of University Chairs' (CUC) Higher Education Code of Governance in 2015-16.

Ethics

The Memorandum and Articles of Association form LSE's constitutional documents. 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). Further, the School has an overarching Ethics Policy by which all members of the LSE community including staff, students and Governors are expected to abide. The values enshrined in the Ethics Code are those of responsibility and accountability, integrity, intellectual freedom, equality of respect and opportunity, collegiality, and sustainability. The Ethics

Policy Committee (EPC) was established as part of the School's wider ethical framework in 2012 with a remit to ensure that the Ethics Code is communicated and embedded in the life and work of the School through the plans, policies, procedures, guidelines and other documents which govern and inform the conduct of the business of the School. The Committee reports regularly to the Council, and has advised on a range of issues.

The principal governance bodies of the School are as follows:

The Court of Governors

The Court may have up to 100 members, approximately 80 per cent of whom are lay members. The remainder are elected academic and student members, and ex-officio members including the Director and Pro-Directors. The lay members of the Court bring to the School a wide range of expertise from a number of sectors, including business, the professions, and the third sector. Many lay members are alumni, and all have a keen interest in upholding the values and reputation of the School and ensuring its long term sustainability.

Members of the Court are "members of the Corporation" and all hold the honorific title of "Governor". Approximately a quarter of members of the Court also serve on the Council or its committees. Unless a member of the Court also serves on the Council, she or he will not be a company director or charity trustee of the School, but rather a "critical friend" and advisor to the School's senior management team and the Council through meetings of the Court and Committees supporting the life and work of the School in a range of formal and informal ways..

As constitutional guardian, the permission of the Court is required to amend the School's Memorandum and Articles of Association. The Court has the following formal powers: the appointment of members of the Court and its subcommittees; the appointment of members of the Council; election of the Chair and Vice Chairs of the Court and Honorary Fellows of the School; and appointment of the School's external auditors. As members of the Corporation, Governors have the power of recall under the Companies Acts and could, in extremis, dismiss the Council. Throughout the year members of Court provided advice and support to that Committee.

There are specific arrangements in place to ensure the cross-reporting of business between the Court and Council. An annual Court Awayday held in Autumn allows members of the Council, the Director and leadership team to consult the Court on a range of strategic issues before these are progressed and approved through the usual governance channels.

The Council

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 provide strategic leadership and to maintain a focus on areas identified as being of strategic importance. It has specific responsibilities in relation to: the monitoring of institutional performance; educational character and mission; making provision for the general welfare of students in consultation with the Academic Board, student experience; finance and financial sustainability; internal controls; estate strategy; human resource and employment policy; equality and diversity; safeguarding the good name and values of the School; and health and safety.

In 2015-16, the Council comprised 20 members, all of whom were trustees of the LSE as an exempt charity and 18 of whom were company directors. From 22 March 2016 one Vice Chair of Court position became vacant following the appointment of the holder as Acting Chair of Court and Council following the unexpected retirement of the Chair, temporarily reducing the total number of members to 19 and the number of company directors to 17. From 1 August 2016 the membership of Council will be reduced to 17 members, (16 while one of the Vice-Chair roles is temporarily vacant) created by the ending of the membership of the three Pro-Directors in order to reduce the number of salaried staff who are members of Council. The regular composition of Council will thereafter comprise ten non-salaried members, five salaried members and two student members. A full list of Council members during 2015-16 and as at 22 November 2016 can be found on page 56.

Council is supported in carrying out its role by a number of standing committees which report directly to it. These are currently Audit, Estates Strategy, Ethics Policy, Finance, Health and Safety and Remuneration. The Council has the power to establish committees



CORPORATE GOVERNANCE



CORPORATE GOVERNANCE

and working groups to bring focus to, and achieve progress in, any area that is deemed to require attention. Certain powers are reserved to the Council by the School's Memorandum and Articles of Association; these may not be delegated. However, the Council may (and does) delegate responsibility both to named officers and to its committees. This delegation is set out in a Scheme of Delegation which is regularly reviewed and delegations may be revoked.

In 2015-16 Council undertook a comprehensive review of the governance of the School which addressed all areas outlined in the CUC Code, the purpose of which was to ensure that the LSE has a framework for decision-making which facilitates the effective conduct of day-to-day business and the ability to respond to externally driven change and challenges while promoting internally driven innovation in ways which respect the organisational culture and are compliant with external requirements, and appropriately apply sector best practice. Specific actions included clarification of delegations and examination of the structures, processes and the relationships between the elements of the structure dealing with matters such as the role(s) of committees, stakeholder involvement, the role of peer review, and reporting arrangements. A number of recommendations were identified and implemented.

Governance – Management Boundary

The Director is Head of the Institution, responsible for the executive management of the School. The Director reports to and is accountable to the Council. The Director is also the Accountable Officer for the purposes of the HEFCE Memorandum of Assurance and Accountability. In this capacity, the Director meets at least annually with the Audit Committee to provide personal assurance on the control framework in place and regarding the content of the School's annual accountability return to HEFCE. Consistent with the CUC Higher Education Code of Governance, key responsibilities of the Director include: ensuring that Council decisions are implemented through the School's management structure; advising the Council and Court as required; and ensuring compliance with the HEFCE Memorandum, bringing any deviations from it to the attention of the Council. Throughout 2015-16 the Director was supported in his role by a senior management team comprising: a Deputy Director and Provost; three Pro-Directors who provide academic leadership in the areas of research, teaching and learning, planning and resources and human resource management and one of whom is also concurrently the CFO; the Chief Operating Officer (from January 2016), and the School Secretary. From 1 September 2016, the role of Deputy Director and Provost was

replaced by that of a fourth Pro-Director for Faculty Development. From 1 September 2016, the senior management team which has previously been known as the Director's Management Team (DMT) will be retitled the School Management Committee with its responsibilities clearly set down in formal terms of reference

The Academic Board

The Academic Board, which reports to the Council, is chaired by the Director and 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 which deal with academic and student affairs, research, academic planning and resources, IT and library services. The Vice Chair of the Academic Board is a member of the Council and reports at each meeting on the formal outcomes of Academic Board meetings. In common with elected academic and student members, the office holder shares responsibility for raising academic concerns with the Council. At the request of the Council, the Academic Board conducted a review of its own effectiveness during the year which included a number of revisions to its mode of operation which will facilitate improved communication of business between Council and the Board.

Control Framework

The Council confirms that the School is compliant with the recommendations of the CUC Higher Education Code of Governance (December 2014) subject to the completion of the implementation in one area which will be done by the end of the current calendar year. As the governing body of the School, the Council has responsibility for maintaining a robust system of internal control that supports the achievement of strategic and operational objectives, while safeguarding public and other funds and assets for which it is responsible under the terms of the Articles and the HEFCE Memorandum of Assurance and Accountability. 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 met four times during the year, is responsible inter alia for advising the Council on the effectiveness of the School's risk management and controls systems. The Audit Committee reports three times a year to Council, through its Chair, and provides an annual opinion on risk management, control and governance.

The School's controls assurance come from a variety of sources, including:

- monitoring by the Director and his management team of various work streams arising from the strategic review;
- regular review by the Director and his management team of policy issues and problems, and of strategic risks;
- review of the strategic risk register, risk mitigation strategies and business continuity arrangements by the Audit Committee, and subsequent discussion at Council;
- annual performance review of individual academic units (Departments and Institutes) by members of the School's senior management group together with in-depth quinquennial reviews by the Academic Planning and Resources Committee, involving independent expert assessors; and regular performance reviews of research units overseen by the Research Committee;
- regular meetings between senior managers and Service Leaders to review progress and issues arising from operational activities, and similar meetings between the Director and Heads of Departments in relation to academic developments;
- oversight by the Academic Planning and Resources Committee of matters relating to resource allocation, forward planning, effectiveness and value for money;
- the School's internal audit service is provided by BDO LLP whose annual programme of reviews is approved by the Council on the advice of the Audit Committee, 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's 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 to the Director as the School's Accountable Officer;
- Financial Regulations approved by the Council. These are reviewed and updated annually;
- 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 reviews of the effectiveness of the Council;
- regular reports from the Academic Board and other bodies to Council which are to be supplemented with reports on a range of measures which will enable Council to assure itself, as required by the CUC Code of Governance, that the academic governance of the institution is effective;
- a written scheme, setting out delegation of executive authority from the Council to the Director, and from the Director to his/her reports;
- constitutional documents (the Memorandum and Articles of Association), which reserve certain powers to the Council and the Court;



- written reports from the Director to the Court and Council, and from the Council to the Court, providing transparency and opportunity for constructive challenge;
- review of change management processes and promotion of best practice in relation to data and reporting in the School by the Data Quality Group; and
- the work of a dedicated Risk Manager located in the Governance Legal and Policy Division.

Internal and External Audit Services

The School's internal audit service is provided by BDO LLP. The School's external auditors are PricewaterhouseCoopers LLP. Representatives of the School's internal and external audit firms attend meetings of the Audit Committee and have an opportunity at each meeting to raise any issues of concern with members of the Committee in private session (ie, in the absence of Officers of the School). The performance of both the Internal and External Auditors is subject to annual review by the Audit Committee and both services are regularly re-tendered.

Audit Committee

The Audit Committee is a standing committee of the Council and reports to the Council three times per year. The Committee provides an independent assessment of the School's arrangements for internal control, risk management, financial reporting, data quality, governance and value for money. It has lay and expert membership and is chaired by a lay member of the Council with appropriate expertise. There were no reports received from Internal Audit during 2015-16 with an opinion of "No" Assurance. Limited assurance over the design of controls was given in one of the reviews. A total of 65 Internal Audit recommendations were made, one of which was of a high priority. It is an indication of the progress being made that of 65 internal audit recommendations, only one was of a high priority relating to the as yet incomplete review of IT security. In all cases, the Committee reviewed management responses to ensure that they would be sufficient to address identified shortcomings, and it continually monitors progress in implementation of management action plans. During the year the Audit Committee conducted a review of its own effectiveness against recommended best practice, assisted by BDO LLP, and will do so on a regular basis in future.

Finance Committee

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 lay, academic and expert membership

The Financial Regulations are updated annually and available online. They set out policies and procedures related to purchasing. capital expenditure on land, buildings, furniture, equipment and associated costs are only normally capitalised if they form part of the approved capital programme. Major acquisitions and disposals are subject to Council approval.

There is a strong budgetary control process, with a high degree of decision-making autonomy delegated to budget controllers on how to spend budgets, but very limited opportunity to overspend. Regular management accounts are reviewed by the Finance Director, the School Management Committee and Finance Committee. There are additional processes for administration and control of research grants, research contracts, donations and endowments where there are specific conditions on how the grant may be spent.

Remuneration Committee

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 Finance and Planning to ensure that staff are only recruited where budgets are approved.

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 latest 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 Memorandum of Assurance and Accountability 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 directing the preparation of the financial statements, the Council has ensured that:

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

The Council is satisfied that the School has adequate resources to continue in operation through 2016 and 2017. 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 Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- to ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources.

Environmental Policy

LSE continues to make good progress on the commitments in our Environmental Sustainability Policy. We achieved a “First” award in the People and Planet University “Green” League for the sixth year running, and our Environmental and Energy Management Systems retained ISO 14001 and 50001 certification.

The “Re:Fit” project saw £2 million invested in energy-efficiency refurbishments that will cut LSE’s carbon footprint by 8 per cent, with further works planned. The Centre Buildings Redevelopment remains on track to achieve BREEAM “Excellent” (a sustainable design standard), and the proposed design for the Paul Marshall Building includes an

“energy centre” that will provide low-carbon electricity and heat to neighbouring buildings.

LSE’s new Procurement Strategy features social responsibility as a key objective, and we have improved guidance to staff on how to buy ethically. We also streamlined our goods deliveries by engaging with suppliers. We recycled, composted or re-used 61 per cent of our waste, and none was sent to landfill.

The School offered numerous opportunities for students and staff to engage with sustainability at LSE and beyond. A Bicycle User Group was established for staff and student cyclists to exchange information, and advise the School on how we can make the campus as bike-friendly as possible. We

supported student-led sustainability projects on campus through the Sustainable Projects Fund, and the Student Switch-Off energy-saving competition in halls’ of residence achieved an 8.8 per cent reduction in halls energy usage since 2010-12.

For full details of LSE’s sustainability performance, please see our Annual Sustainability Report.



Endowment Investment Performance

Funding from philanthropy along with tuition fees, HEFCE grants and research grants 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 contribution to the School's facilities, and to its portfolio of research and teaching. In an ever-changing sector, the challenge facing LSE is to make giving an integral part of its financial health.

Socially Responsible Investment

During 2015-16 the School developed and adopted a new Socially Responsible Investment Policy and we can report that at the end of 2015-16 there were no direct investments in companies engaged in the manufacture of tobacco or indiscriminate arms or significantly involved in the extraction of thermal coal or tar sands; all the fund managers used for indirect equity investment support the UN Principles.

During the 2015-16 financial year, the School's endowment grew from £88.6m to £119.2m. The growth in the endowment came in large part from private donations which have established centres, chairs, lectureships, and scholarships with the remaining contribution from the endowment's investment return. 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 education and the "betterment of society".

The School's endowment is divided into three portfolios, each devoted to a different objective and managed according to the investment return and risk criteria pertinent to that portfolio's objective:

The Gift Matching portfolio: expendable endowments that are budgeted to be spent in the short or medium term. The investment objective for this portfolio is to preserve capital. The funds are invested in cash and short-term bonds matched to the required distribution schedule.

The Growth portfolio: expendable endowments that have a longer-term horizon and permanent endowments that are invested on a total return basis. The objective for this portfolio is to yield an average annual investment return over the long term of 4 per cent plus the Retail Price Index (RPI).

The Financial Economic Review (FER)

portfolio: a separate investment portfolio for a permanent endowment to support the STICERD research centre. The objective for this portfolio is to generate an annual return of £530k inflated by RPI per annum.

Investment performance

The investment performance for each investment pool over one, three and five year period is:

Investment return	1 year	3 years	5 years	Long-term objectives
Growth	9.8%	7.3%	8.0%	
Gift matching	4.1%	3.3%	3.3%	
Gift matching and growth combined	9.1%	6.9%	7.8%	4% + RPI
FER	12.8%	7.7%	8.0%	£530k payout + RPI

Investment Sub-Committee

Established in 1989, the LSE Investment Committee is a sub-committee of the Finance Committee. It is responsible for initiating investment strategy and determining the asset allocation required to achieve the investment risk and return targets approved by the Finance Committee. The Investment

Committee meets at least three times a year and appoints an investment adviser whose tactical asset allocation and manager recommendations are monitored and reviewed by the Investment Committee and implemented when agreed by the Finance Division. Overall strategic asset allocation and manager selection is reviewed by the Committee at least once a year.

Asset allocation

Asset allocation for each pool as at 31 July 2016 was as follows:

	Gift matching		Growth		FER		Total
	£'000	%	£'000	%	£'000	%	£'000
UK equities			25,469	39%	5,977	28%	31,446
Overseas equities			30,524	47%	10,348	49%	40,871
UK corporate bonds	11,854	93%		0%	4,112	20%	15,966
Properties			8,886	14%			8,886
Money market	835	7%	236	0%	596	3%	1,667
	12,689	100%	65,115	100%	21,032	100%	98,836
Gifts awaiting investment	20,405						20,405
	33,094	100%	65,115	100%	21,032	100%	119,241

Independent Auditors' Report to the Council of London School of Economics and Political Science (The "School")

Report on the financial statements

Our opinion

In our opinion, the London School of Economics and Political Science's group financial statements and parent institution financial statements (the "Financial Statements"):

- give a true and fair view of the state of the group's and of the parent institution's affairs as at 31 July 2016 and of the group's income and expenditure 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 2015 Statement of Recommended Practice – Accounting for Further and Higher Education, and the requirements of the 2015-16 HEFCE Accounts Direction; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Financial Statements (the "Annual Report"), comprise,

- the consolidated and School Balance Sheets as at 31 July 2016;
- the consolidated Statement of Comprehensive Income and Expenditure for the year then ended;
- the consolidated and School Statement of Changes in Reserves for the year then ended;
- the consolidated Cash Flow Statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation is the Statement of Recommended Practice for Further and Higher Education 2015, incorporating United Kingdom Accounting

Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Council has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the parent institution and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Report of the Directors. We have nothing to report in this respect.

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

In our opinion, in all material respects:

- funds from whatever source administered by the institution 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 institution's statutes; and
- funds provided by HEFCE have been applied in accordance with the Memorandum of Assurance and Accountability, and any other terms and conditions attached to them.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent institution, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent institution financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Internal control

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. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Respective responsibilities of the Council and auditors

As explained more fully in the declaration of the Council set out on pages 24 to 27 the Council (who are also the directors of the company for the purposes of company law) is 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) ("ISAs (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 London School of Economics and Political Science, in accordance with the Charters and Statutes of the institution and Chapter Three 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK and Ireland). 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.

We primarily focus our work in these areas by assessing the Council judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing

the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.



Ian Looker (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers
LLP Chartered Accountants and Statutory
Auditors, London

22 November 2016

Accounting Policies

The School is an exempt charity within the meaning of Part Three 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. VAT recovered from HMRC is recorded under other income.

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 35 to 37.

1 Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015 and in accordance with Financial Reporting Standards (FRS 102). The School is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102. The financial statements are prepared in accordance with the historical cost convention (modified by the revaluation of investments and derivative financial instruments).

2 Basis of consolidation

The consolidated financial statements include the School and all its subsidiaries for the financial year to 31 July 2016. Intra-group transactions are eliminated on consolidation.

The consolidated financial statements do not include the income and expenditure 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.

Associated companies and joint ventures are accounted for using the equity method. Jointly controlled operations are accounted for on a proportional basis.

3 Income recognition

Income from the sale of goods or services is credited to the Consolidated Statement of Comprehensive Income and Expenditure when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Fee income is stated gross of any expenditure which is not a discount and credited to the Consolidated Statement of Income and Comprehensive Expenditure in the year in which the student registers. Where the amount of the tuition fee is reduced by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Summer School income and teaching costs are apportioned between financial years on the basis of teaching days. The School's share of surplus from participation in the University of London International Programme is recognised on an accrual basis.

Investment income is credited to the Statement of Comprehensive Income and Expenditure (SOCi) on a receivable basis.

Funds the School receives and disburses as paying agent on behalf of a funding body are excluded from the SOCi where the School is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Grant funding

Grant funding including Funding Council block grants and research grants are recognised as income when the School is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Donations and endowments

Non-exchange transactions without performance related conditions are donations and are recognised in income when received. Donations with donor imposed restrictions are retained within the restricted reserve until such time that it is utilised in line with such restrictions and the income is released to general reserves through a reserve transfer.

Investment income and appreciation of endowments is recorded in income in the year in which it arises as either restricted or unrestricted income according to the terms or other restrictions applied to the individual endowment fund.

Donations refer to any gift to the School. Endowments are donations that are unlikely to be spent within a period of two years. Endowments can further be classified into expendable and permanent endowments. There are four main types of donations and endowments identified within reserves:

- a** Restricted donations - the donor has specified that the donation must be used for a particular objective.
- b** Unrestricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the School.
- c** Restricted expendable endowments – the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the School has the power to use the capital.
- d** Restricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

Total return on investment for endowments

Total return is the whole of the investment return received by the School on the permanent endowment fund regardless of how it has arisen. The total return, less any part of the return which has previously been applied for the purposes of the School, remains in the unapplied total return fund. This fund remains part of the permanent endowment until such time as a transfer is made to the SOCi.



Capital grants

Capital grants are recognised in income when the School is entitled to the funds subject to any performance related conditions being met.

4 Accounting for retirement benefits

The two principal pension schemes for the School's staff are the Universities Superannuation Scheme (USS) and Superannuation Arrangements of the University of London (SAUL). The schemes are defined benefit schemes which are externally funded. Each fund is valued every three years by professionally qualified independent actuaries.

Both USS and SAUL are multi-employer schemes for which it is not possible to identify the assets and liabilities of the School's members due to the mutual nature of the scheme and therefore these schemes are accounted for as defined contribution retirement benefit schemes. A liability for each scheme is recorded within provisions for any contractual commitment to fund past deficits within the schemes.

5 Employment benefits

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the

School. Any unused benefits are accrued and measured as the additional amount the School expects to pay as a result of the unused entitlement.

6 Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

Land and buildings

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 on a straight line basis over their expected useful lives as follows:

Buildings – 75 years

Roofs – 25 years

Refurbishments including mechanical and electrical services – 10 years

Leasehold buildings are depreciated over the period of the lease.

Capital projects which are still under construction and buildings held for redevelopment are capitalised but not depreciated.

Equipment

Equipment, including computers, 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 expected useful life as follows:

Computer equipment – three years

Other equipment – five years

Borrowing costs

Borrowing costs are recognised as expenditure in the period in which they are incurred.

7 Intangible assets

Intangible assets consist of computer and network software and their associated incremental costs of implementation, and are amortised over five years representing the estimated economic life of the assets.

8 Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any lease premiums or incentives are spread over the minimum lease term. Provision for dilapidation is not included in the cost of operating leases.

9 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income and Expenditure.

10 Investments

Non-current asset investments are held on the Balance Sheet at market value, except for corporate bond investments invested with the intention to hold to maturity which are recognised at amortised cost.

Investments in jointly controlled entities are carried at cost less impairment in the School's accounts.

11 Stocks

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

12 Cash and cash equivalent

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are available within 24 hours without penalty.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

13 Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when:

- a the School has a present obligation (legal or constructive) as a result of a past event;
- b it is probable that an outflow of economic benefits will be required to settle the obligation; and
- c a reliable estimate can be made of the amount of the obligation.

A contingent liability arises from a past event that gives the School a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the School. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but are disclosed in note 25.

14 Accounting for joint operations, jointly controlled assets and jointly controlled operations

The School accounts for its share of joint ventures using the equity method. The School accounts for its share of transactions from joint operations and jointly controlled assets in the Consolidated Statement of Income and Expenditure.

15 Reserves

Reserves are classified as restricted or unrestricted. Restricted endowment reserves include balances which, through endowment to the School, are held as a permanently restricted fund which the School must hold in perpetuity.

Other restricted reserves include balances where the donor has designated a specific purpose and therefore the School is restricted in the use of these funds.

16 Derivatives

Derivatives are held on the Balance Sheet at fair value with movements in fair value recorded in the Statement of Comprehensive Income and Expenditure.

17 Key accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Defined benefit pension scheme

The School participates in the Universities Superannuation Scheme (USS) and Superannuation Arrangements of the University of London (SAUL). Both are defined benefit schemes and are externally funded and are contracted out of the State Second Pension (S2P) Scheme. During 2014-15 and 2015-16, the trustees of both pension schemes have agreed a recovery plan to fund past service deficits. The calculation of the School's contribution to the deficit depends on a number of factors, including: salary increases, growth of staff numbers and the discount rate on corporate bonds. Management estimates these factors in determining the net pension provision in the balance sheet (see note 18). The assumptions reflect historical experience and current trends.

18 Change in accounting policy

The School has prepared its financial statements in accordance with FRS 102 for the first time and consequently has applied the first time adoption requirements. An explanation of how the transition to SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of the School is provided in note 29.

Consolidated statement of comprehensive income and expenditure

Company registration no 70527

	NOTES	Group 2015-16 £'000	School 2015-16 £'000	Group 2014-15 (restated) £'000	School 2014-15 (restated) £'000
INCOME					
Tuition fees and education contracts	1	177,155	177,155	166,663	166,663
Funding body grants	2	25,339	25,339	22,437	22,437
Research grants and contracts	3	31,503	30,337	26,376	25,561
Other income	4	71,853	63,097	73,050	63,476
Investment income	5	5,304	5,307	4,701	4,701
Total income before endowments and donations		311,154	301,235	293,227	282,838
Donations and endowments	6	29,482	29,482	10,080	10,080
Total income		340,636	330,717	303,307	292,918
EXPENDITURE					
Staff costs	7	170,887	166,470	176,336	172,162
Other operating expenses		116,364	110,889	107,127	100,929
Depreciation	10/11	11,186	11,159	10,246	10,218
Interest and other finance costs	9	8,729	8,729	8,144	8,144
Total expenditure	8	307,166	297,247	301,853	291,453
Surplus before other gains		33,470	33,470	1,454	1,465
Gain on investments		8,450	8,450	4,423	4,423
Surplus before tax for the year		41,920	41,920	5,877	5,888
Change in fair value of hedging financial instruments		(10,768)	(10,768)	(6,624)	(6,624)
Total comprehensive income/(expense) for the year		31,152	31,152	(747)	(736)
Represented by:					
Endowment comprehensive income for the year	19	30,635	30,635	3,944	3,944
Restricted comprehensive income for the year	20	(462)	(462)	2,055	2,055
Unrestricted comprehensive income/(expense) for the year		979	979	(6,746)	(6,735)
		31,152	31,152	(747)	(736)

All items of income and expenditure relate to continuing activities.

The 2014-15 Financial Statements have been restated to comply with FRS102. Transition to FRS102 is disclosed in note 29.

Consolidated and School Statement of Changes in Reserves

GROUP	Income and expenditure account			Total £'000
	Endowment £'000	Restricted £'000	Unrestricted £'000	
Balance at 1 August 2014	84,662	–	334,030	418,692
Surplus/(deficit) from the income and expenditure statement	3,944	2,055	(122)	5,877
Other comprehensive expense	–	–	(6,624)	(6,624)
Total comprehensive income/(expense) for the year	3,944	2,055	(6,746)	(747)
Balance at 1 August 2015	88,606	2,055	327,284	417,945
Surplus/(deficit) from the income and expenditure statement	30,635	(462)	11,747	41,920
Other comprehensive expense	–	–	(10,768)	(10,768)
Total comprehensive income/(expense) for the year	30,635	(462)	979	31,152
Balance at 31 July 2016	119,241	1,593	328,263	449,097

SCHOOL	Income and expenditure account			Total £'000
	Endowment £'000	Restricted £'000	Unrestricted £'000	
Balance at 1 August 2014	84,662	–	333,944	418,606
Surplus/(deficit) from the income and expenditure statement	3,944	2,055	(111)	5,888
Other comprehensive expense	–	–	(6,624)	(6,624)
Total comprehensive income/(expense) for the year	3,944	2,055	(6,735)	(736)
Balance at 1 August 2015	88,606	2,055	327,209	417,870
Surplus/(deficit) from the income and expenditure statement	30,635	(462)	11,747	41,920
Other comprehensive expense	–	–	(10,768)	(10,768)
Total comprehensive income/(expense) for the year	30,635	(462)	979	31,152
Balance at 31 July 2016	119,241	1,593	328,188	449,022

Consolidated and School Balance Sheet

As at 31 July 2016

	NOTES	Group 2016 £'000	School 2016 £'000	Group 2015 £'000 (restated)	School 2015 £'000 (restated)
Non-current assets					
Intangible assets	10	1,195	1,195	1,245	1,245
Tangible assets	11	437,309	436,829	420,823	420,342
Investments	12	253,008	253,158	241,537	241,686
Investment in joint venture	13	21	–	74	–
		691,533	691,182	663,679	663,273
Current assets					
Stock	14	118	118	104	104
Trade and other receivables	15	20,265	21,803	20,965	22,310
Cash and cash equivalents	21	60,791	58,605	42,566	40,427
		81,174	80,526	63,635	62,841
Less Creditors: amounts falling due within one year	16, 17	(97,851)	(96,927)	(96,587)	(95,462)
Net current liabilities		(16,677)	(16,401)	(32,952)	(32,621)
Total assets less current liabilities		674,856	674,781	630,727	630,653
Creditors: amounts falling due after more than one year	16, 17	(186,957)	(186,957)	(178,343)	(178,343)
Pension provisions	18	(38,802)	(38,802)	(34,439)	(34,439)
Total net assets		449,097	449,022	417,945	417,870
Restricted reserves					
Income and expenditure reserve-endowment reserves	19	119,241	119,241	88,606	88,606
Income and expenditure reserve-restricted reserves	20	1,593	1,593	2,055	2,055
Unrestricted reserves					
Income and expenditure reserve-unrestricted		328,263	328,188	327,284	327,209
Total reserves		449,097	449,022	417,945	417,870

The financial statements on pages 35 to 57 were approved by the Council on 22 November 2016 and were signed on its behalf by:



Alan Elias
Acting Chair of Court and Council



Professor Julia Black
Director

Consolidated cash flow statement

Year ended 31 July 2016

	NOTES	Group 2015-16 £'000	Group 2014-15 £'000 (restated)
Cash flow from operating activities			
Surplus for the year		41,920	5,877
Adjustment for non-cash items			
Depreciation	10, 11	11,186	10,246
Amortisation of premium on bonds	12	3,233	2,845
Gain on investments		(8,450)	(4,423)
(Increase)/decrease in stock	14	(14)	20
Decrease/(increase) in debtors	15	700	(2,587)
Increase in creditors	16	910	9,647
Increase in pension provision	18	4,363	19,028
Adjustment for investing or financing activities			
Investment income	5	(5,304)	(4,701)
Interest payable	9	8,214	8,144
Endowment income	6	(26,775)	(4,711)
Loss on the sale of fixed assets		116	–
Net cash inflow from operating activities		30,099	39,385
Cash flows from investing activities			
Proceeds from sales of fixed assets		56	–
Disposal of non-current asset investments		18,586	14,196
Investment income	5	5,304	4,701
Payments made to acquire fixed assets	11	(27,559)	(18,790)
Payments made to acquire intangible assets	10	(182)	(342)
New non-current asset investments	12	(20,700)	(143,879)
Other investment cash movement	12	(4,140)	(1,420)
Net cash outflow from investing activities		(28,635)	(145,534)
Cash flows from financing activities			
Interest paid	9	(8,214)	(8,144)
Endowment cash received	6	26,775	4,711
Repayments of amounts borrowed		(1,800)	(1,800)
Net cash outflow from financing activities		16,761	(5,233)
Increase/(decrease) in cash and cash equivalents in the year		18,225	(111,382)
Cash and cash equivalents at beginning of the year	21	42,566	153,948
Cash and cash equivalents at end of the year	21	60,791	42,566

Notes to the Financial Statements

	Group 2015-16 £'000	School 2015-16 £'000	Group 2014-15 £'000	School 2014-15 £'000
1 TUITION FEES AND EDUCATION CONTRACTS				
Tuition fees:				
Home/EU Students	53,554	53,554	53,627	53,627
Overseas Students	95,462	95,462	89,943	89,943
Short Courses	27,774	27,774	22,633	22,633
Examination and Other Fees	365	365	460	460
	<u>177,155</u>	<u>177,155</u>	<u>166,663</u>	<u>166,663</u>

	Group 2015-16 £'000	School 2015-16 £'000	Group 2014-15 £'000 (restated)	School 2014-15 £'000 (restated)
2 FUNDING BODY GRANTS				
From HEFCE				
Block recurrent	20,415	20,415	18,724	18,724
Capital grant	1,561	1,561	1,044	1,044
Higher Education Innovations Fund	3,010	3,010	2,505	2,505
Other Specific Grants	243	243	97	97
Total HEFCE	<u>25,229</u>	<u>25,229</u>	<u>22,370</u>	<u>22,370</u>
Joint Information Systems Committee and other grants	110	110	67	67
	<u>25,339</u>	<u>25,339</u>	<u>22,437</u>	<u>22,437</u>

	Group 2015-16 £'000	School 2015-16 £'000	Group 2014-15 £'000 (restated)	School 2014-15 £'000 (restated)
3 RESEARCH GRANTS AND CONTRACTS				
Research Councils	7,758	7,758	7,243	7,243
Government departments	7,551	7,150	3,941	3,941
Charities	1,426	1,251	1,165	1,165
European Commission and other EU based funders	7,485	7,178	6,975	6,975
Other outside bodies	7,283	7,000	7,052	6,237
	<u>31,503</u>	<u>30,337</u>	<u>26,376</u>	<u>25,561</u>

		Group 2015-16 £'000	School 2015-16 £'000	Group 2014-15 £'000 (restated)	School 2014-15 £'000 (restated)
4 OTHER INCOME	NOTES				
Residences and catering		36,227	30,936	35,590	30,708
Academic department income attributable to other activities		971	971	1,834	1,834
University of London International Programmes (ULIP)		10,237	10,237	10,727	10,727
Consultancy services and executive education		6,221	–	7,595	–
Other Services Rendered		14,364	17,120	11,967	14,870
VAT Recovery		1,263	1,263	1,311	1,311
Staff and student Facilities		646	646	660	660
Sundry		1,924	1,924	3,366	3,366
		<u>71,853</u>	<u>63,097</u>	<u>73,050</u>	<u>63,476</u>

		Group 2015-16 £'000	School 2015-16 £'000	Group 2014-15 £'000 (restated)	School 2014-15 £'000 (restated)
5 INVESTMENT INCOME					
Investment income on endowments	19	2,152	2,152	1,965	1,965
Other investment income		3,152	3,155	2,736	2,736
		<u>5,304</u>	<u>5,307</u>	<u>4,701</u>	<u>4,701</u>

		Group 2015-16 £'000	School 2015-16 £'000	Group 2014-15 £'000 (restated)	School 2014-15 £'000 (restated)
6 DONATIONS AND ENDOWMENTS					
New endowments	19	26,775	26,775	6,711	6,711
Donations with restrictions	20	177	177	137	137
Donations with performance related conditions		567	567	99	99
Other donations		1,963	1,963	3,133	3,133
		<u>29,482</u>	<u>29,482</u>	<u>10,080</u>	<u>10,080</u>

7 STAFF COSTS	NOTES	Group 2015-16 £'000	School 2015-16 £'000	Group 2014-15 £'000 (restated)	School 2014-15 £'000 (restated)
Total staff costs for the year were:					
Wages and salaries		136,355	132,748	129,791	126,346
Social Security costs		12,898	12,557	11,247	10,949
Other pension costs		17,780	17,311	16,244	15,813
		167,033	162,616	157,282	153,108
USS pension provision utilised in year	18	(1,159)	(1,159)	–	–
Movement on USS pension provision	18	3,834	3,834	19,054	19,054
Movement on SAUL pension provision	18	1,179	1,179	–	–
		170,887	166,470	176,336	172,162

	Group 2015-16 Number	Group 2014-15 Number (restated)
The average monthly number of persons employed by the group during the year expressed as full-time equivalent numbers was:		
Research and Teaching	1,459	1,389
Operational Services	1,111	1,041
Subsidiaries	26	26
	2,596	2,456

2015 staff numbers have been restated to show the staff of Research Institutes and Centres in Research and Teaching instead of Operational Services, which reflects more appropriately the Group's activities.

7 STAFF COSTS (continued)
DIRECTORS REMUNERATION

Group
2015-16
£'000

Group
2014-15
£'000

Directors

Emoluments (2015-16 - 11 Directors; 2014-15 - 10 Directors)	1,380	1,389
---	-------	-------

Group
2015-16
£'000

Group
2014-15
£'000

Included in the above are emoluments of the Director of the School:

Salary	315	312
Bonus relating to 2014-15	30	–
Benefits in kind	15	19
	360	331
Employer's pension contributions	53	50
	413	381

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.

Taxable benefits in kind associated with the subsidised accommodation occupied by the Director are included in the above table.

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:

Group
2015-16
Numbers

Group
2014-15
Numbers

£100,001 – £110,000	47	48
£110,001 – £120,000	26	25
£120,001 – £130,000	26	13
£130,001 – £140,000	14	25
£140,001 – £150,000	13	18
£150,001 – £160,000	13	8
£160,001 – £170,000	14	14
£170,001 – £180,000	15	19
£180,001 – £190,000	9	4
£190,001 – £200,000	6	2
£200,001 – £210,000	3	3
£210,001 – £220,000	3	3
£220,001 – £230,000	2	2
£230,001 – £240,000	6	4
£240,001 – £250,000	4	3
£250,001 – £260,000	4	–
£260,001 – £270,000	–	1
£270,001 – £280,000	1	3
£280,001 – £290,000	2	–
£450,001 – £460,000	–	1
	208	196

7 STAFF COSTS (continued)

Total remuneration includes salaries and other additional payments relating to Summer School, TRIUM and consultancy and executive education delivered via LSE Enterprise Ltd where required by the Companies Act and compensation for loss of office. It does not include payments for private consultancy or income earned from activities outside the LSE Group. Payments for compensation of loss of office include one higher paid staff member, totalling £99,000 (2014-15: 2 staff, £434,000).

Key management personnel

Key management personnel are those persons, other than the Director, having authority and responsibility for planning, directing and controlling the activities of the School. Staff costs include remuneration paid to key management personnel.

Key personnel (2015-16: 5, 2014-15: 4) are:

Pro-directors
 Chief Financial Officer
 Chief Operating Officer
 School Secretary

	Group 2015-16 £'000	Group 2014-15 £'000
Key management personnel compensation	691	557

8 ANALYSIS OF TOTAL EXPENDITURE BY ACTIVITY	Group 2015-16 Staff costs £'000	Group 2015-16 Non pay costs £'000	Group 2015-16 Total £'000	School 2015-16 Total £'000	Group 2014-15 Total £'000 (restated)	School 2014-15 Total £'000 (restated)
Academic departments	101,630	10,747	112,377	110,909	106,578	105,147
Library and IT Services	11,941	11,452	23,393	23,393	24,626	24,626
Research grants and contracts	14,407	7,334	21,741	21,741	18,627	18,627
Scholarships	-	19,410	19,410	19,410	17,713	17,713
General education expenditure	6,747	3,274	10,021	9,612	9,172	8,738
Estates	5,751	23,100	28,851	28,851	25,767	25,767
Administration and central services	11,978	4,199	16,177	16,170	15,736	15,729
Staff and student facilities	2,315	2,996	5,311	5,311	5,604	5,604
Residences and Catering	6,150	21,666	27,816	24,104	26,241	22,840
Consultancy services and executive education	3,069	10,833	13,902	9,606	10,634	5,535
USS pension provisions utilised in year	(1,159)	-	(1,159)	(1,159)	-	-
Movement on USS provision	3,834	-	3,834	3,834	19,054	19,054
Movement on SAUL provision	1,179	-	1,179	1,179	-	-
Miscellaneous	3,045	1,353	4,398	4,398	3,711	3,711
Depreciation and amortisation:						
– Estates	-	10,260	10,260	10,260	10,139	10,139
– Residences and Catering	-	910	910	899	90	79
– Consultancy services and executive education	-	16	16	-	17	-
Interest and other finance costs	-	8,729	8,729	8,729	8,144	8,144
	170,887	136,279	307,166	297,247	301,853	291,453

Other operating expenses include:

Fees payable to the School's auditor for the audit for the financial statements	82	82	63	63
Fees payable to the School's auditor and its associates for other services:				
Audit of the financial statements of the School's subsidiaries	6	-	8	-
Other services relating to taxation	-	-	-	-
All other services	31	31	30	30
	119	113	101	93

Operating lease rentals

Land and buildings	8,560	8,560	7,151	7,151
Other	997	997	1,091	1,091
	9,557	9,557	8,242	8,242

	Group 2015-16 £'000	School 2015-16 £'000	Group 2014-15 £'000	School 2014-15 £'000
9 INTEREST AND OTHER FINANCE COSTS				
Loan interest	8,214	8,214	8,144	8,214
Net charge on pension scheme	515	515	–	–
	<u>8,729</u>	<u>8,729</u>	<u>8,144</u>	<u>8,144</u>

	Year ended 31 July 2016	
	Group £'000	School £'000
10 INTANGIBLE ASSETS		
Software		
Opening balance as at 1 August 2015	1,245	1,245
Additions in the year	182	182
Amortisation charge for the year	(232)	(232)
Closing balance as at 31 July 2016	<u>1,195</u>	<u>1,195</u>

	Land and Buildings Freehold £'000	Land and Buildings Long Leasehold £'000	Equipment £'000 (restated)	Assets Under Construction £'000	Total £'000 (restated)
11 TANGIBLE ASSETS					
Group					
Cost					
As at 1 August 2015	439,488	29,991	17,677	9,712	496,868
Additions in year	11,553	470	417	15,119	27,559
Transfer	2,955	–	–	(2,955)	–
Disposals in year	–	(18)	(403)	–	(421)
As at 31 July 2016	<u>453,996</u>	<u>30,443</u>	<u>17,692</u>	<u>21,876</u>	<u>524,006</u>
Accumulated depreciation					
As at 1 August 2015	56,906	7,204	11,935	–	76,045
Charge for year	8,248	731	1,975	–	10,954
Disposals in year	–	(3)	(299)	–	(302)
As at 31 July 2016	<u>65,154</u>	<u>7,932</u>	<u>13,611</u>	<u>–</u>	<u>86,697</u>
Net book value					
As at 31 July 2015	<u>382,582</u>	<u>22,787</u>	<u>5,742</u>	<u>9,712</u>	<u>420,823</u>
As at 31 July 2016	<u>388,842</u>	<u>22,511</u>	<u>4,080</u>	<u>21,876</u>	<u>437,309</u>

11 TANGIBLE ASSETS (continued)	Land and Buildings Freehold £'000	Land and Buildings Long Leasehold £'000	Equipment £'000 (restated)	Assets Under Construction £'000	Total £'000 (restated)
School					
Cost					
As at 1 August 2015	439,488	29,324	17,417	9,712	495,941
Additions in year	11,553	470	391	15,119	27,533
Transfer	2,955	–	–	(2,955)	–
Disposals in year		(16)	(157)	–	(173)
As at 31 July 2016	453,996	29,778	17,651	21,876	523,301
Accumulated depreciation					
As at 1 August 2015	56,906	7,006	11,687	–	75,599
Charge for year	8,249	723	1,955	–	10,927
Disposals in year	–	(1)	(53)	–	(54)
As at 31 July 2016	65,155	7,728	13,589	–	86,472
Net book value					
As at 31 July 2015	382,582	22,318	5,730	9,712	420,342
As at 31 July 2016	388,841	22,050	4,062	21,876	436,829

Group and School

Fixed assets acquired by the School are funded mainly by retained surplus. Other sources include 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 amount to £18.1m at 31 July 2016. The School has manuscripts of historic value stored in the Library archive and works of art. 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 and the School's works of art are insured in 2016-17 for £126.0m and £1.5m respectively.

12 INVESTMENTS	Subsidiary Companies £'000	Other fixed assets investments £'000	Total
Group			
As at 1 August 2015-restated	–	241,537	241,537
Additions	–	20,700	20,700
Disposals	–	(21,042)	(21,042)
Increase in market value of investments	–	10,906	10,906
Increase in investment cash	–	4,140	4,140
Amortisation of premium on bonds	–	(3,233)	(3,233)
As at 31 July 2016	–	253,008	253,008
School			
As at 1 August 2015-restated	150	241,537	241,687
Additions	–	20,700	20,700
Disposals	–	(21,042)	(21,042)
Increase in market value of investments	–	10,906	10,906
Increase in investment cash	–	4,140	4,140
Amortisation of premium on bonds	–	(3,233)	(3,233)
As at 31 July 2016	150	253,008	253,158

Included in investments are £107.9m of corporate bonds at amortised cost. At 31 July 2016, the market value was £119.2m.

The other fixed assets investments consist of:

12 INVESTMENTS (continued)	2016 £'000	2015 £'000
Group and School		
Analysis of closing balance		
UK equities	43,202	39,690
Overseas equities	55,063	46,964
UK corporate bonds	135,898	140,481
Properties	13,173	12,805
Money market funds	600	650
Cash on account	5,038	913
Share of Freehold Property	34	34
	253,008	241,537

INVESTMENTS IN SUBSIDIARY UNDERTAKINGS	Group 2016	School 2016	Group 2015	School 2015
Subsidiary Companies	–	150	–	150

Principal subsidiaries are :

Name	Company number	Registered address	Nature of Business	Shareholding	Number of Shares (£1 Ordinary Shares)
LSE Enterprise Limited	02657442	Houghton Street, London WC2A 2AE, United Kingdom	Consultancy	100%	150,000
LSE LETS Limited	3044566	Houghton Street, London WC2A 2AE, United Kingdom	Vacation Lettings	100%	2

Both 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 in the Statement of Comprehensive Income and Expenditure.

	Group 2016 £'000	School 2016 £'000	Group 2015 £'000	School 2015 £'000
13 INVESTMENT IN JOINT VENTURES				
As at 1 August 2015	74	–	120	–
Disposals	(53)	–	(46)	–
As at 31 July 2016	21	–	74	–

During the year, the School disposed of its 50 per cent share in the Journal of Transport Economics and Policy being a joint venture with the University of Bath.

The School has a one third share in the TRIUM MBA course with NYU Stern and HEC Paris. This has been consolidated on a proportional basis in accordance with FRS102.

	Group 2016 £'000	School 2016 £'000	Group 2015 £'000	School 2015 £'000
14 STOCK				
Food & beverages	95	95	91	91
Consumables	23	23	13	13
	118	118	104	104

	Group 2016 £'000	School 2016 £'000	Group 2015 £'000 (restated)	School 2015 £'000 (restated)
15 TRADE AND OTHER RECEIVABLES				
Amounts falling due within one year:				
Other trade receivables	6,218	4,787	5,975	4,180
Research grants receivables	4,882	4,882	3,535	3,535
Amounts due from group undertakings	–	3,717	–	4,261
Staff loans for housing	38	38	38	38
Other receivables	5,555	5,484	8,074	6,953
Prepayments and accrued income	3,235	2,558	3,032	3,032
	19,928	21,466	20,654	21,999
Amounts falling due after more than one year:				
Other trade receivables	44	44	57	57
Staff loans for housing	293	293	254	254
	337	337	311	311
TOTAL	20,265	21,803	20,965	22,310

	Group 2016 £'000	School 2016 £'000	Group 2015 £'000 (restated)	School 2015 £'000 (restated)
16 CREDITORS				
Amounts falling due within one year:				
Bank loans	1,800	1,800	1,800	1,800
Trade payables	5,621	5,584	9,290	9,212
Research creditors and prepayments	15,162	15,162	15,008	15,008
Amounts due to group undertakings	—	1,645	—	1,726
Taxation and social security	4,804	4,663	3,969	3,828
Other creditors	7,930	7,890	8,773	6,474
Accruals and deferred income	62,534	60,183	57,747	57,414
	97,851	96,927	96,587	95,462
Amounts falling due after one year:				
Bank loans and loan notes	145,700	145,700	147,500	147,500
Derivatives	36,625	36,625	25,857	25,857
Deferred Income	4,000	4,000	4,000	4,000
Deferred VAT payments	632	632	986	986
	186,957	186,957	178,343	178,343

Deferred income

Included in research creditors and prepayments and accruals and deferred income are the following items of income which have been deferred until specific performance related conditions have been met.

	Group 2016 £'000	School 2016 £'000	Group 2015 £'000	School 2015 £'000
Donations	4,131	4,131	4,239	4,239
Research grants received on account	15,162	15,162	15,008	15,008
Grant income	116	116	151	151
	19,409	19,409	19,398	19,398

	Group 2016 £'000	School 2016 £'000	Group 2015 £'000	School 2015 £'000
17 BORROWINGS				
Bank loans and loan notes 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	138,500	138,500	140,300	140,300
	<u>147,500</u>	<u>147,500</u>	<u>149,300</u>	<u>149,300</u>

The School arranged a £75.0m amortising loan repayable by December 2028 secured over School property. £22.5m was outstanding with a residual facility of £30.0m remaining undrawn at the balance sheet date.

The School entered into interest rate swap agreements (derivatives) 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 are shown at fair value at the balance sheet date.

Lender	Amount £'000	Maturity	Interest Rate %	Borrower
Barclays Bank plc	22,500	22 December 2028	Libor + 0.25	School
Private placement	30,000	27 November 2028	3.73 to 4.15	School
Private placement	25,000	27 November 2043		School
Private placement	30,000	27 November 2043		School
Private placement	40,000	27 November 2053		School
Total	<u>147,500</u>			

		Obligation to fund deficit on USS Pension £'000	Obligation to fund deficit on SAUL Pension £'000	Pension enhancement on termination (FSSU) £'000	Total Pensions Provisions £'000
18 PENSION PROVISIONS	NOTES				
Group and School					
As at 1 August 2015-restated		34,333	–	106	34,439
Utilised in year	7	(1,159)	–	(6)	(1,165)
Net charge on pension scheme	9	515	–	–	515
Additions in year		3,834	1,179	–	5,013
As at 31 July 2016		<u>37,523</u>	<u>1,179</u>	<u>100</u>	<u>38,802</u>

Obligation to fund deficit on USS and SAUL Pension Schemes

The obligation to fund the past deficits on the University's Superannuation Scheme (USS) and The Superannuation Arrangements of the University of London (SAUL) arises from the contractual obligation with the pension schemes for total payments relating to benefits arising from past performance. Management have assessed future employees within the schemes and salary payments over the period of the contracted obligation in assessing the value of these provisions.

Pension enhancement on termination

Pension enhancements are payable to staff who have retired under the previous superannuation scheme for academic and related staff, Federated Superannuation Systems for Universities (FSSU).

	Expendable £'000	Restricted permanent £'000	Group 2016 Total £'000	Group 2015 Total £'000 (restated)
19 ENDOWMENT RESERVES				
Group and School				
Capital value	26,456	60,305	86,761	83,315
Accumulated income	1,845	–	1,845	1,347
At 1 August 2015 / 1 August 2014	28,301	60,305	88,606	84,662
New endowments	23,187	3,588	26,775	4,711
Investment income	683	1,469	2,152	1,965
Expenditure for the year	(4,131)	(1,238)	(5,369)	(6,245)
Increase in market value of investments	1,476	5,601	7,077	3,513
Total endowment comprehensive income for the year	21,215	9,420	30,635	3,944
At 31 July 2016/31 July 2015	49,516	69,725	119,241	88,606
Represented by:				
Capital value	47,759	69,725	117,484	86,761
Accumulated income	1,757	–	1,757	1,845
	49,516	69,725	119,241	88,606
Analysis by type of purpose:				
Named chairs and lectureships	5,030	22,717	27,747	27,199
Scholarships and bursaries	12,960	15,302	28,262	26,023
Research support	7,516	30,498	38,014	30,750
Library	158	1,208	1,366	1,284
Widening Participation	651	–	651	640
Support for academic institutes	20,405	–	20,405	–
General	2,796	–	2,795	2,710
	49,516	69,725	119,241	88,606
Analysis by asset				
Non current asset investments	29,111	69,725	98,836	88,606
Cash and cash equivalents	20,405	–	20,405	–
	49,516	69,725	119,241	88,606

	Donations £'000	Group 2016 Total £'000	Group 2015 Total £'000 (restated)
20 RESTRICTED RESERVES			
Group and School			
Reserves with restrictions are as follows:			
At 1 August 2015 / 1 August 2014 (restated)	2,055	2,055	–
New donations	177	177	2,137
Expenditure	(639)	(639)	(82)
Total restricted comprehensive income for the year	(462)	(462)	2,055
At 31 July 2016 / 31 July 2015	1,593	1,593	2,055

	Group 2016 Total £'000	Group 2015 Total £'000
Analysis of restricted donations by type of purpose:		
Research support	121	74
Support for academic institutes	1,472	1,981
	1,593	2,055

	At 1 August 2015 £'000 (restated)	Cash flows £'000	Group At 31 July 2016 £'000
21 CASH AND CASH EQUIVALENTS			
Group			
Cash and cash equivalents	14,584	(7,602)	6,982
Bank deposits	27,982	25,827	53,809
	42,566	18,225	60,791

	Group 2016 £'000	School 2016 £'000	Group 2015 £'000	School 2015 £'000
23 CAPITAL AND OTHER COMMITMENTS				
Provision has not been made for the following capital commitments at 31 July:				
Commitments contracted for:				
Centre Building Redevelopment	–	–	3,269	3,269
Refurbishments	–	–	3,258	3,258
	–	–	6,527	6,527

	Land and buildings £'000	Other leases £'000	Group 2016 £'000	Group 2015 £'000
24 LEASE OBLIGATIONS				
Total rentals payable under operating leases:				
Payable during the year	8,560	997	9,557	8,242
Future minimum lease payments due:				
Within one year	9,005	747	9,752	9,303
Between two and five years	36,180	773	36,953	35,504
Five years or more	29,388	–	29,388	39,942
Total lease payments due	74,573	1,520	76,093	84,749

25 CONTINGENT ASSETS AND LIABILITIES

The School has entered into rental guarantees with Shaftesbury Housing and Urbanest UK Minorities Limited. Between 2016-17 and 2020-21, the School has a financial commitment relating to 1,135 beds with a potential liability estimated at £11.1m per year.

The School signed a significant gift agreement in 2014-15. At 31 July 2016, there was an outstanding balance of £24m. An asset is not recognised in the Financial Statements for this possible asset because the existence of which is dependent upon the fulfilment of payments.

	Group 2015-16 £'000	Group 2014-15 £'000
26 SCHOLARSHIPS AND ACCESS FUNDS		
Student support provided by the School's general reserves and endowments	19,410	17,713
Access Funds		
Balance unspent as at 1 August	–	5
Disbursed to students	–	(5)
Balance unspent as at 31 July	–	–

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 Economic and Social Research Council (ESRC) grants and US federal loans as paying agent. The grants and related disbursements are therefore excluded from the Statement of Comprehensive Income and Expenditure. The Government has ended the Access funds scheme.

Directors of the School and Members of Council

During the year and up to the date of signing of the financial statements were:

Lord Myners

Chairman of the Court and Council and Remuneration Committee
(until 8 March 2016)

Mr Alan Elias

Vice Chairman of the Court and (from 22 March 2016)
Acting Chairman of the Court and Council and Remuneration Committee

Dr Susan Liautaud

Vice Chairman of the Court and Chair of the Ethics Policy Committee

Professor Craig Calhoun

Director of the School (until 31 August 2016)

Professor Julia Black

Pro-Director (Research) and (from 1 September 2016)
Interim Director of the School

Professor Jason Alexander

Academic member

Ms Virginia Beardshaw CBE

Lay Governor and Acting Chair of Nominations Committee

Ms Nona Buckley-Irvine

General Secretary of the Students' Union (until 3 July 2016)

Professor Matthew Engelke

Academic Member (until 31 July 2016)

Ms Tina Fahm

Lay Governor and Chair of the Audit Committee

Mr John Hughes

Lay Governor

Mr Nigel Hugill

Lay Governor (until 31 July 2016)
and Chair of Estates Committee

Professor Janet Hunter

Academic member (until 31 July 2016)

Professor Simona Iammarino

Academic Member (from 1 August 2016)

Mr Mark Molyneaux

Lay Governor and Chair of the Finance Committee (until 31 July 2016)

Mr Roger Mountford

Lay Governor, Chair of Health and the Safety Committee and
(from 1 August 2016) Chair of the Finance Committee

Mr Ali Nikpay

Lay Governor (from 1 August 2016)

Professor Terhi Rantanen

Academic Member (from 1 August 2016)

Mr Syed Mahatir Sakib Pasha

Student Member (until 10 December 2015)

Ms Harriet Spicer

Lay Governor

Ms Elisabeth Stheeman

Lay Governor and Vice-Chair of the Finance Committee
(from 1 August 2016)

Ms Busayo Twins

General Secretary of the Students' Union
(from 4 July 2016)

Professor David Webb

Pro-Director (Planning and Resources) and Chief Financial Officer

Ms Hateema Zia

Student Member (from 10 December 2015)

Members of the Council not Directors of the School

Professor Emily Jackson

Vice Chair of the Academic Board (from 1 September 2016)

Professor Paul Kelly

Pro-Director (Teaching and Learning) (until 31 July 2016)

Professor Martin Loughlin

Vice Chair of the Academic Board (until 31 August 2016)

School Secretary

Mr Andrew Webb

Academic Departments

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

Institutes

Institute of Global Affairs (IGA)
International Inequalities Institute (III)
The Paul Marshall Institute for Philanthropy
and Social Entrepreneurship
Institute of Public Affairs (IPA)

Research centres

Cities
Centre for Climate Change Economics and
Policy (CCCEP)
Diplomacy and Strategy (IDEAS)
Centre for Economic Performance (CEP)
Suntory and Toyota International Centres
for Economics and Related Disciplines (STICERD)
Financial Markets Group (FMG)
The Grantham Research Institute on Climate
Change and the Environment (GRI)
Health and Social Care
Human Rights
International Growth Centre (IGC)
Local Economic Growth (What Works)
Centre for Macroeconomics (CFM)
Middle East
Centre for Philosophy of Natural and Social
Science (CPNSS)
Social Exclusion (CASE)
Systemic Risk
Time Series (CATS)

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