LSE THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Financial Statements

For the year ending 31 July 2018

Contents

Report of the Chair of the Court of Governors and Council

It's been a privilege this year to support our new Director Minouche Shafik in her first full year in the role.

As you will see from the significant activity outlined in this annual review it has been another very successful and exciting year in which we have delivered new initiatives, grasped challenges we face and continued to deliver world leading excellence in the social sciences.

The world in which we operate has been changing and this has included change in the way UK higher education is regulated with the move from the HEFCE to the Office for Students.

But the changes that influence our success go beyond the world of HE and the implications of Brexit and turbulent international politics are still to be fully understood. It is a credit to the excellent work of staff and students across the School that despite all these uncertainties we continue to see strong recruitment of national and international students to all our programmes and international recognition of the power/impact of our research.

We are not complacent however and know that we have work to do to enable our students to have a more consistently world leading experience. I commend the way this challenge has been grasped by Minouche and her team this year. We are also in the process of updating our governing documents to bring these in line with current best practice and to ensure that Council has clear and unambiguous responsibility for the governance of the School. In order to support our students and staff to maintain their internationally leading position, we must have the most efficient governance and operating model for the School with appropriate delineation of governance and management responsibilities.

I hope you enjoy reading this annual report. You will see in each section evidence of the commitment to excellence demonstrated by LSE staff wherever they work in the School. I should like to thank all our staff for the tremendous work they do to enable the School to deliver its distinctive contribution to the social sciences.

Shirley Pearce

Dame Shirley Pearce
Chair of Court and Council


LSE STUDENTS' UNION


Get Active


WELCOME TO
LSE


LSE Spectrum


ECONOMICS

Welcome from the Director

As I reflect on the achievements of the past year across the School community, I am optimistic about the future, and the capacity of the talented people which make up the LSE to deliver on the ambitious targets we have set ourselves.

When I arrived at the School I identified improving the student experience as my top priority. While it will necessarily take time to see the impact of these measures, we are making good progress – having successfully introduced a new academic code with minimum standards across a range of areas, launched a dedicated Student Hub, and recruited a new Pro-Director for Education, Professor Dilly Fung, with an ambitious vision for supporting excellence and innovation in education. It also won't be too long until we have the new Centre Buildings in the heart of LSE, with fantastic facilities for the entire LSE community and a reopened Houghton Street at the heart of our campus.

We continue to be recognised as the number two social science institution in the world (according to QS World Rankings), and this year also received recognition from outside the sector when the School was awarded the Queen's Anniversary Prize for our work on Cities.

In line with the School's mission, to "know the causes of things" for the "betterment of society", LSE continues to influence and shape public debate, locally, nationally and globally. I was particularly pleased to see the impact of the Beveridge 2.0 Festival which brought together the School community to consider and update Beveridge's "five giants" and rethink the welfare state for the 21st century. We attracted 4,600 people to 39 events, and reached 15.6 million people globally on Twitter alone. I look forward to the School's 2019 Festival focused on New World (Dis)orders.

We face a tumultuous external environment, with uncertainty around the future of higher education funding and the implications of Brexit. Universities have a special role to play at a time when public discourse is polarized, and we need new ideas to solve global challenges. The world needs LSE more than ever before.

In order to navigate these uncertain waters, and to future-proof LSE in a changing world, we are in the process of developing a new strategy to 2030. I have been delighted by the active engagement we have had from students, staff, alumni and partners throughout the public consultation which informed the strategy. Enhancing the student experience, modernising our educational offer for the new economy, extending our global impact and developing our staff will be core to our direction in future years.

We are at an exciting juncture, and I look forward to building an even better LSE in the coming year and beyond.

Dame Minouche Shafik
Director

Strategic Report and Report of the Directors

School Mission and Strategy

Led by LSE Director Minouche Shafik and the School Management Committee (SMC), we are in the concluding stages of an extensive exercise of consultation and engagement to establish LSE's 2030 Strategy.

This work spans six strategic themes:

- LSE's Founding Purpose
- LSE Education
- LSE Research
- Global Engagement and Impact
- Alumni Engagement
- Staff Engagement

This exercise has been undertaken against a backdrop of significant challenges facing the institution and the wider education sector including:

- An educational experience that is inconsistent with our high aspirations and impressive performance in research.
- Changes in the regulatory environment, particularly the introduction of the Office for Students (OfS).
- Uncertainties associated with the withdrawal of the UK from the EU.
- Intensified competition from both UK and international universities – and of research and educational provision in other organisations – many of which have improved their performance and are continuing to innovate in technology, educational programmes and their global reach.
- Political uncertainty regarding the funding of undergraduate students and the arrangements associated with tuition fees.

We plan to launch our Strategy 2030 in the new year and what is already clear is that its ambition will be to ensure we are:

- True to our mission to be the world's leading social science institution with the greatest global impact.
- True to our founding purpose as a community of people and ideas that transform the world, founded to "know the causes of things".
- A place where ideas are challenged through debate based on evidence, expertise and rigour.
- Equipping our students to be critical investigators and "change makers".
- Open and engaged with the outside world, working with governments and businesses to shape political, economic and social structures for the 21st century.
- Ensuring our international diversity remains core to the distinctiveness of the School's environment.

Once we have established our 2030 Strategy we will set to work to revise our Financial Plan and formulate an ambitious and far reaching fundraising campaign.

Scope of the Financial Statements

These financial statements comprise the consolidated results of the School and its subsidiaries. The operations of these subsidiaries cover the vacation letting of student accommodation, consultancy services, exploitation of intellectual property, the provision of customised 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.

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

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

2017-18 Financial Review

Summary financial data	2017-18 Unrestricted funds £m	2017-18 Restricted and designated funds £m	2017-18 Total £m	2016-17 Total £m	Change £m	Change %
Operating income	347.0	4.5	351.5	343.6	7.9	2.3%
Donations and endowments	–	8.9	8.9	9.5	(0.6)	(6.3%)
Total income	347.0	13.4	360.4	353.1	7.3	2.1%
Operating expenses	(301.5)	(9.8)	(311.3)	(301.5)	(9.8)	(3.3%)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	45.5	3.6	49.1	51.6	(2.5)	(4.8%)
USS and SAUL past service deficit release and movement in provisions	2.8	–	2.8	5.7	(2.9)	(50.9%)
Depreciation	(12.9)	–	(12.9)	(12.9)	–	–
Interest and other finance costs	(8.8)	–	(8.8)	(8.9)	0.1	1.1%
Surplus	26.6	3.6	30.2	35.5	(5.3)	(14.9%)
Gains on investments	0.2	10.0	10.2	18.2	(8.0)	(44.0%)
Change in the fair value of hedging financial instruments	3.9	–	3.9	7.2	(3.3)	(45.8%)
Comprehensive income for the year	**30.7**	**13.6**	**44.3**	**60.9**	**(16.6)**	**(27.3%)**
Balance sheet						
Fixed assets			553.0	459.3	93.7	20.4%
Endowment assets and investments			227.1	270.5	(43.4)	(16.0%)
Net current assets			18.6	1.0	17.6	1,760.0%
Creditors due after more than one year			(212.9)	(187.1)	(25.8)	(13.8%)
Pension provisions			(31.4)	(33.7)	2.3	6.8%
Net assets			554.4	510.0	44.4	8.7%
Liquidity						
Cash and cash equivalents			107.9	80.2	27.7	34.5%
Investments			227.1	270.5	(43.4)	(16.0%)
Loans			(173.9)	(145.7)	(28.2)	(19.4%)
Net funds			161.1	205.0	(43.9)	(21.4%)

Student numbers	**2017-18**	**2016-17**
Undergraduate	4,952	4,949
Postgraduate – taught	4,803	4,732
Postgraduate – research	441	448
Full-time	10,196	10,129
Part-time	480	535
Others (visiting and executive)	1,284	1,221
Part-time and other	1,764	1,756
London Summer Schools and Executive Summer Schools	7,247	6,597
Beijing and Cape Town Schools	344	333
University of London International Programme – LSE programmes	17,731	19,191
Online courses	2,273	–
Grand total	39,555	38,006
Staff		
Average full-time equivalent staff numbers (FTE)	2,645	2,519
Staff costs as a percentage of income before endowments and donations	53.5%	50.7%

The purpose of this Financial Review is to explain the key features of the School's 2017-18 financial results and set them in the context of the School's financial plans and strategy.

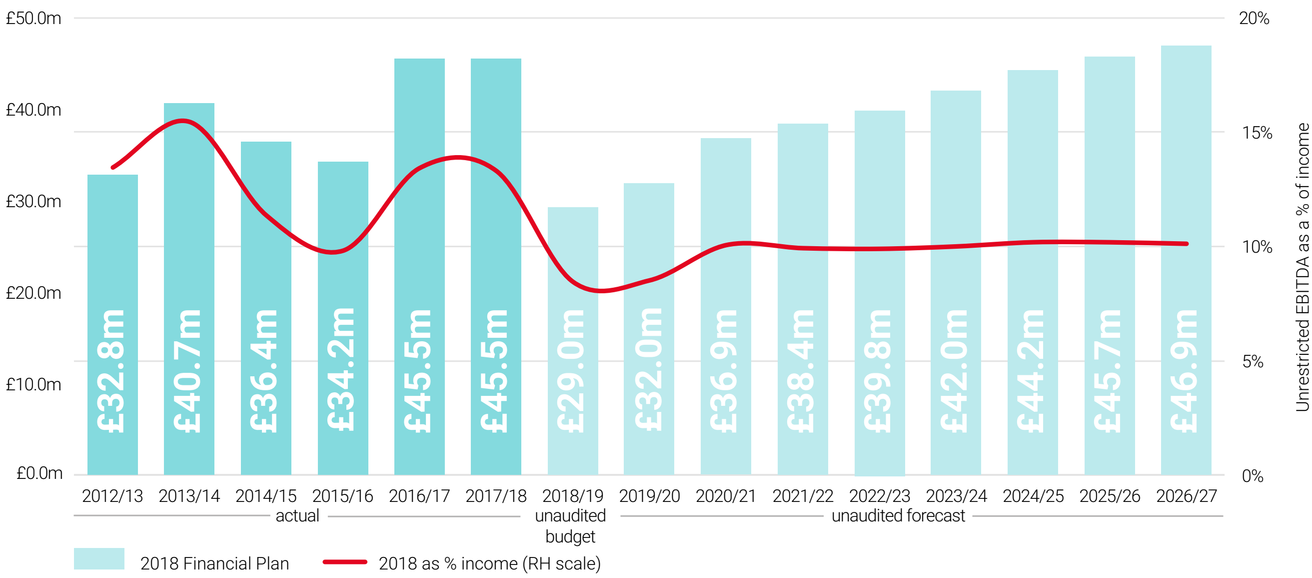
We are reporting an accounting surplus of £30.2 million for 2017-18 compared with £35.4 million in 2016-17. Comprehensive Income (accounting surplus plus gains on investments and the change in the market value of our interest rate swaps) for the year was £44.3 million compared to £60.9 million in 2016-17 – this substantial year on year movement illustrates the volatility of Comprehensive Income as a measure of performance.

Overall, our results exceeded budget primarily because of the cautious approach we have taken to budgeting student recruitment and staff costs, but this over-achievement has enabled us to set aside additional investment in excess of £2.0 million for academic and student-facing services in 2017-18.

As the chart below shows, 2017-18 was another strong year financially, confirming the robust nature of the School and its sound financial management, leaving us well-placed to tackle the challenges that lie ahead.

The School's preferred measure of financial performance is Unrestricted Earnings before Interest, Taxation, Depreciation and Amortisation (uEBITDA) and stands at £45.5 million for 2017-18 the same level as 2016-17. We prefer this measure because it excludes volatility from non-cash movements such as unrealised

Unrestricted earnings before interest payable, tax, depreciation and amortisation (uEBITDA)



gains on investments and donations where there are timing differences between the receipts and expenditure. The School's financial strategy targets an uEBITDA of 10 per cent of revenue across our planning period – this is a minimum level that we consider adequate to ensure sufficient funds to repay borrowings, invest in capital infrastructure and allow us the flexibility to support innovation and investment.

Financial strategy and ensuring the financial sustainability of the School

Each year, the SMC and Council approve a 10 year Financial Plan which has been prepared using a set of prudent assumptions and long-term financial targets. Its sensitivity to these assumptions is assessed along with the current risks identified in the School's Strategic Risk Register to ensure we have a reasonable expectation of maintaining a sustainable long-term financial position. Any significant investments and associated returns are evaluated against the Plan and on a standalone basis before a final decision to invest is made. This ensures that our financial decisions contribute to the financial sustainability of the School.

During 2017-18 Council adopted a statement of Funding Principles which provides a framework for borrowing, investment and use of surpluses.

Taken together, the Financial Plan and Funding Principles provide a transparent and clear framework within which we make rational choices and orderly decisions about our operating surpluses, investments, cash, loan financing and the development of our restricted and unrestricted funds.

As part of our financial planning processes, a range of financial indicators are tracked and reviewed regularly by the SMC.

Based on this rigorous planning and review process, SMC and the School's Council have concluded that the School is operating in a financially sustainable manner and remains a "going concern".

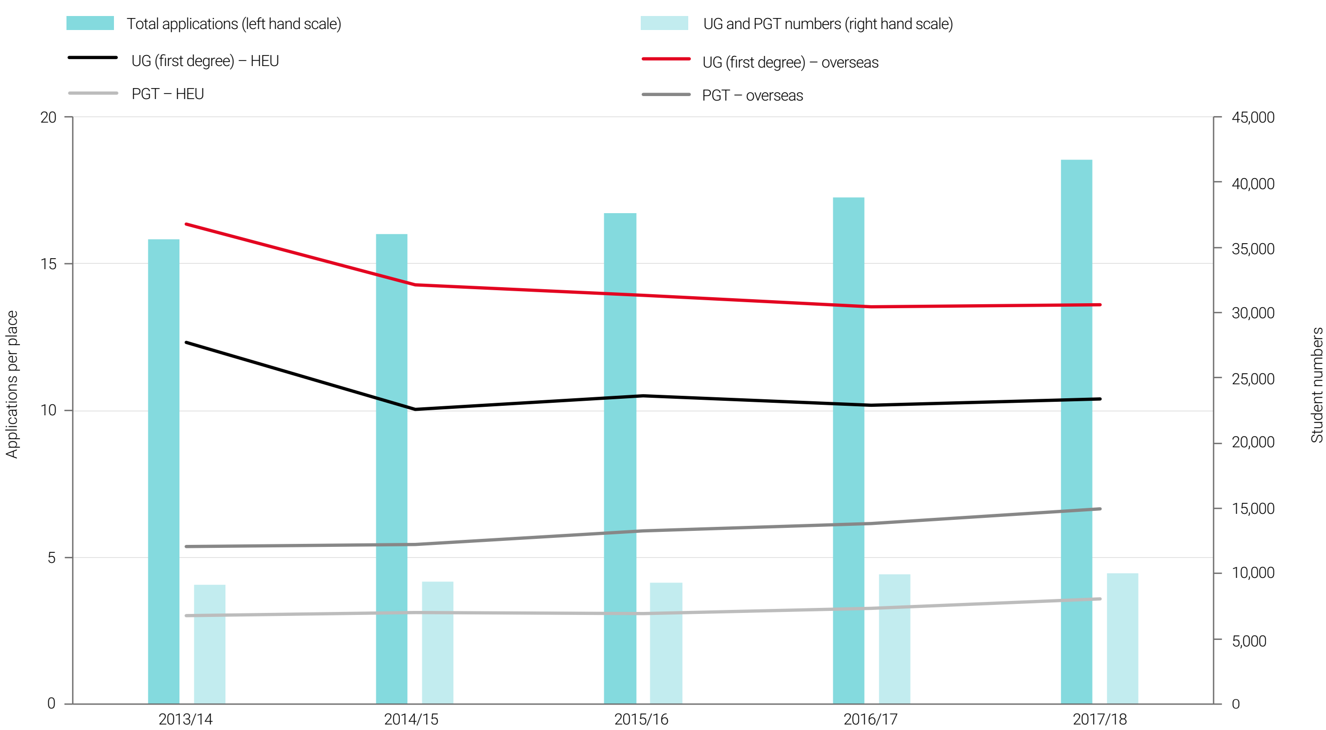
Income

Demand remains strong for places on our full time taught programmes. Over the past five years, a period during which entry requirements have risen on a number of programmes, applications for full-time places have grown by 17 per cent and by 7 per cent compared to last year. We registered 10,196 full-time students in 2017-18, which was only 67 more than the previous year and we will not seek to grow our full-time population significantly until we have completed the Centre Buildings and the Marshall Building. Any growth we plan thereafter will be modest, despite this evident demand as we want to ensure growth is accompanied by the highest quality of educational experience for our students.

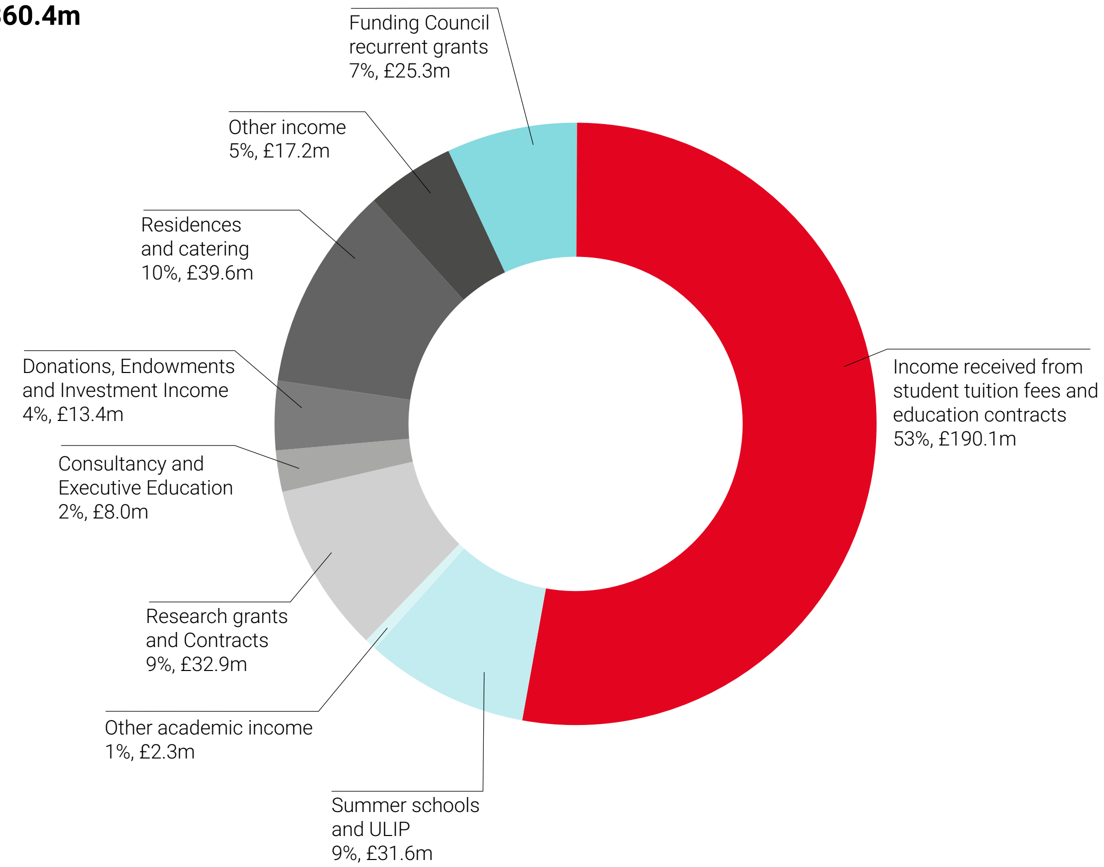
Tuition fee and Education Contract income grew by 6.2 per cent to £211.6 million. Most of the increase came from growth in the London Summer School programmes which reached 7,247 students in 2017-18 and from our expanding range of Executive Masters programmes. Growth in these areas is consistent with our strategy to diversify income sources and interestingly this echoes the founding of the School when education was offered though a range of lectures and part-time programmes.

Income	2017-18	2016-17	Change	
	£m	£m	£m	%
Tuition fees and education contracts	211.5	199.3	12.3	6.2%
Funding Council grants	25.3	26.3	(1.0)	(3.8%)
Research grants	32.9	32.1	0.8	2.5%
Other income	77.3	80.5	(3.2)	(4.0%)
Investment income	4.5	5.4	(1.0)	(18.5%)
Total income before endowments and donations	351.5	343.6	7.9	2.3%
Donations and endowments	8.9	9.5	(0.6)	(6.3%)
Total income	360.4	353.1	7.3	2.1%

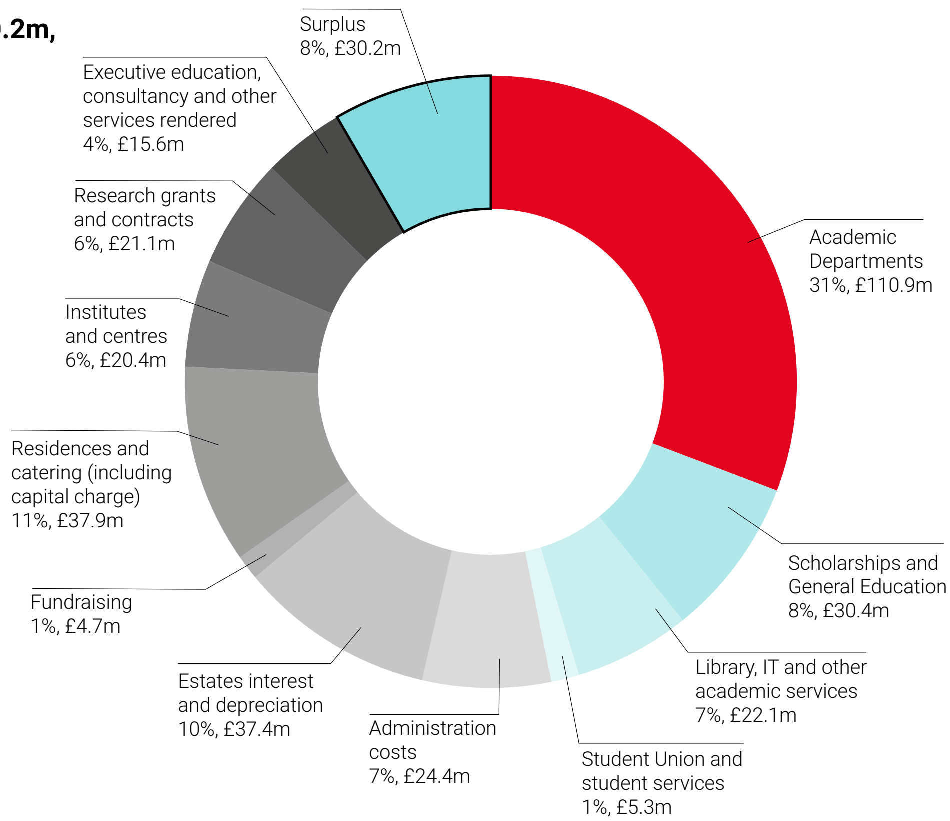
Demand for full-time places at LSE



Income – £360.4m



Expenditure – £330.2m, surplus £30.2m

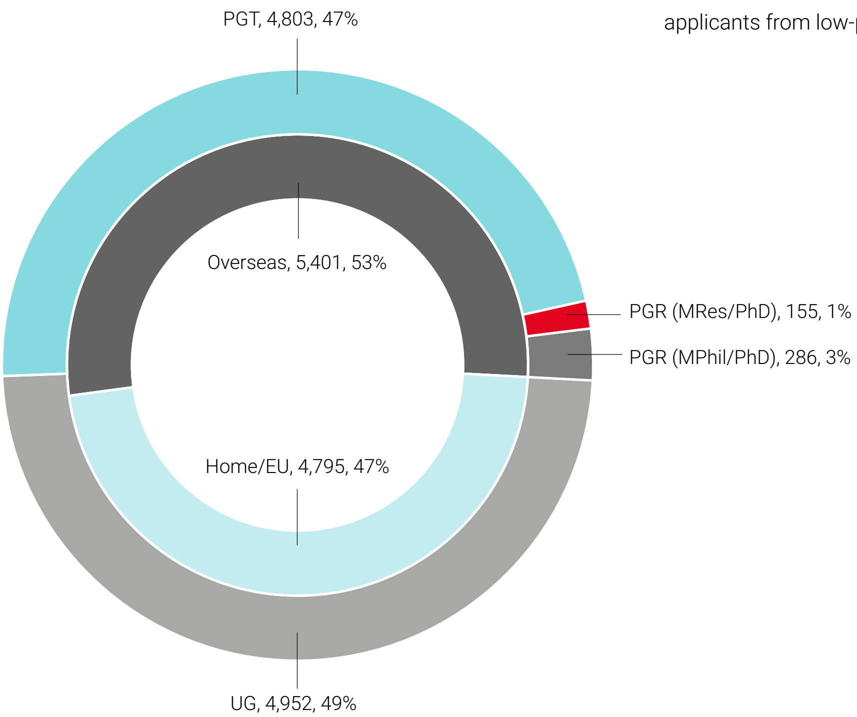


Students, education and tuition fees

PhD scholarships and bursaries

The School has two flagship funding schemes for doctoral students: our own LSE PhD Studentship scheme which supported 245 fully funded students across four years of study and the Economic and Social Research Council Doctoral Training Centre (DTC) scheme supporting a further 147. In addition, PhD students are funded by philanthropic support and other Research Councils, and some institutes and departments provide scholarships from their own resources. All these awards provide a stipend to cover living costs and the PhD tuition fee. They are awarded on academic merit and research potential and are highly competitive. Across all these schemes 60 per cent of doctoral students enrolled at the School had full funding. Additionally, the School provides funds to support conference attendance and the writing-up period for all our PhD students.

Full-time student mix 2017-18



Undergraduate and postgraduate scholarships and bursaries

In 2017-18 the School spent £18.8 million on bursaries and scholarships for undergraduates and postgraduates to enable them to study at the School. UK and EU undergraduates can qualify for bursaries up to the value of £4k per year for each year of study. In addition to this, following a successful pilot in 2016-17 we now offer residential bursaries at our halls to help with the cost of accommodation in London.

For UK undergraduates, the School is also supporting its commitment under the Access Agreement to widen participation to higher education and LSE. To do so, the School is successfully investing in an extensive programme for schools and colleges to ensure young people studying in London's state schools and colleges have the opportunity to find out more about higher education, are supported in their GCSE and A-level attainment, and feel prepared for the transition to higher education. This comprehensive work prior to application, our approach to admissions, and generous financial support has resulted in increasing numbers of students meeting widening participation criteria, obtaining offers and taking up places at LSE. In 2016-17 the total amount reported to the Office of Fair Access for this programme of funding and support was £4.3 million. Our 2016-17 HESA performance indicators (the most recent available) highlight that LSE exceeded its location adjusted benchmarks for state school entrants and those from low participation neighbourhoods by 0.8 and 2.4 percentage points respectively. This is the fourth consecutive year we have exceeded the benchmark on these measures. Additionally, we have seen an increase in the number of applicants from low-performing schools over the last two years.

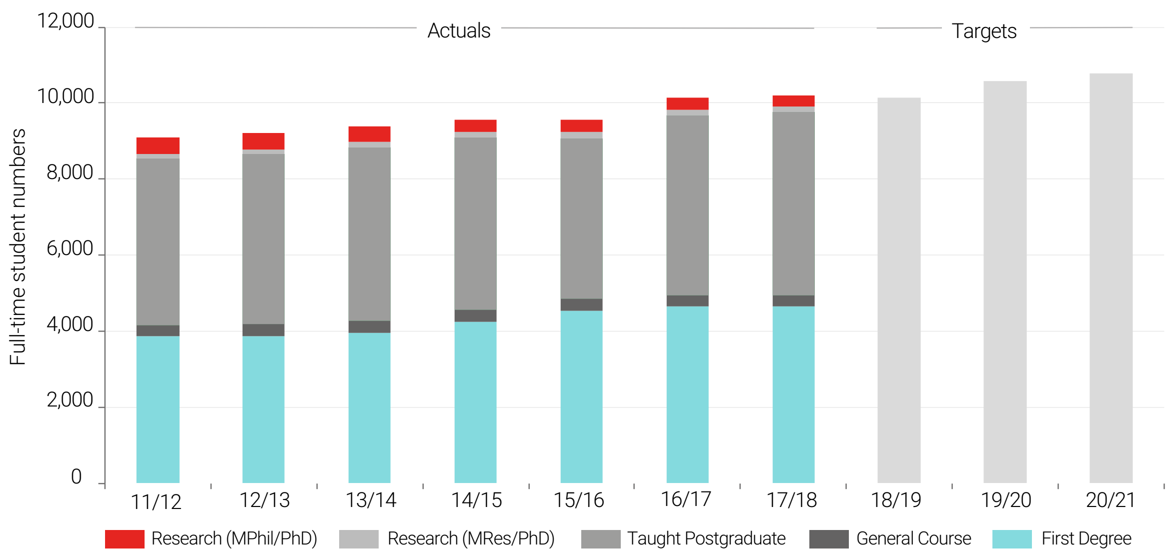
Full-time students by domicile in 2017-18*

Full time students by domicile 2017-18	Student numbers
UK	3,187
China	1,262
USA	701
Hong Kong	393
Singapore	385
Germany	366
France	360
Malaysia	349
India	283
Italy	218
Canada	160
South Korea	130
Switzerland	103
Russia	97
Thailand	92
Greece	91
Pakistan	91
Japan	90

Full time students by domicile 2017-18	Student numbers
Spain	82
Netherlands	78
Austria	68
Poland	63
Belgium	62
Australia	59
Taiwan	55
Colombia	54
Brazil	53
Chile	53
Cyprus	51
Norway	51
21 with between 20 and 50 students each	625
17 with between 19 and 10 students each	244
76 with fewer than 10 students each	240
Total 145	10,196

*Source: LSE HESA category domicile data

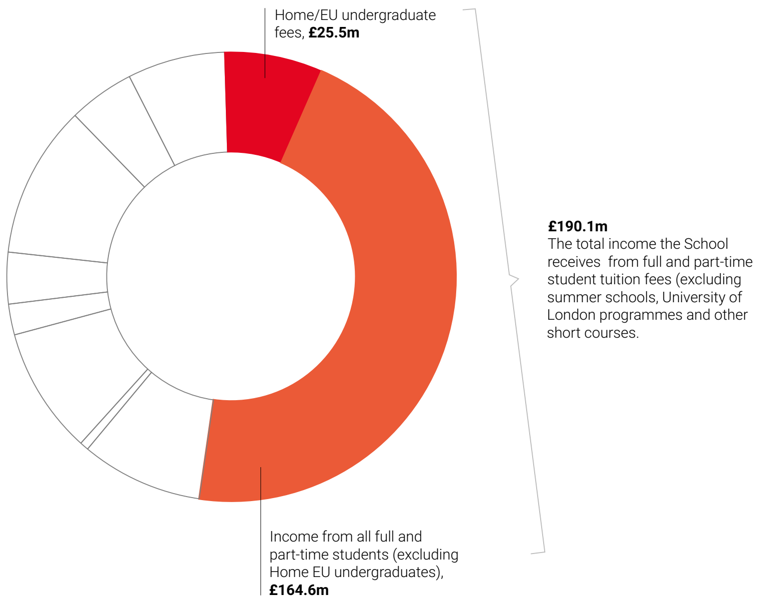
Historic and planned full-time student numbers



How we support learning and how student tuition fees are used

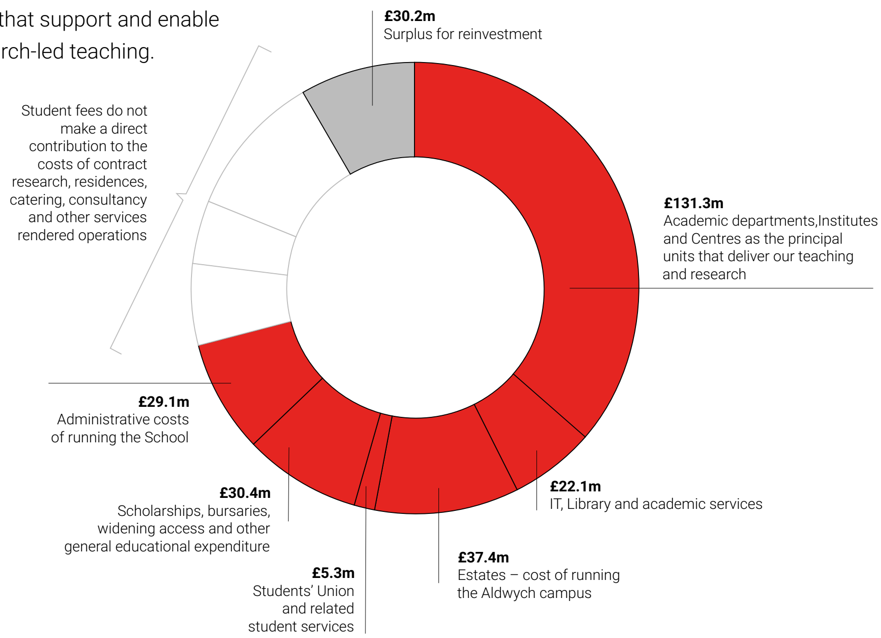
Tuition fees and education contracts (excluding summer schools) make up a significant proportion of our income at £190.1 million (53 per cent) but they do not fund all the costs necessary to support teaching excellence, research led teaching and a rewarding student experience. To achieve this and to fund our research, residences and other activities we have developed revenue from a range of other activities such as summer schools, international programmes, executive education and consultancy. The following chart seeks to illustrate this and the relative sizes of income and costs associated with running LSE and the importance of our diversified revenues.

Total income 2017-18 £360.4 million



Total expenditure 2017-18 £330.2 million

This chart highlights those areas of the School's expenditure that support and enable the provision of research-led teaching.



The apportionment of faculty time included under Academic Department expenditure includes the cost of teaching and the time spent on research and scholarship not funded directly by contract research. The other highlighted areas of expenditure, with the exception of scholarships and the Students' Union (which are expenditure related solely to the enhancement of the student experience) support the delivery of both education and research.

Support for learning – New Education Strategy

In October 2017 the Higher Education Funding Council for England (HEFCE) concluded their Annual Provider Review of LSE and stated that the institution had "met the requirements of the review with an action plan". This followed the HEFCE Quality Committee's review of a Quality Assurance Agency (QAA) report on previously identified areas of concern. HEFCE accepted the School's action plan in November 2017. LSE provided HEFCE – now Office for Students (OfS) – with regular updates, submitting a final report in July 2018.

The School accepted, understood and embraced the messages given by the APR outcome and as a community worked together to deliver the actions in the plan. Furthermore, the focused effort of completing the actions this year has generated learning and experience that is being used to develop ongoing approaches to delivering continuous improvements to the student experience, including a particular focus for this year on a number of areas including assessment and marking criteria, feedback times, and more active roles for students in understanding and shaping LSE. Supporting and embedding this work and approach for the future, the full governance, review, and monitoring structures for education and the student experience have been overhauled this year, so as to better shape and steer outcomes at all levels, and improve the School-wide consistency of students' educational and broader experiences.

This reinvigorated approach will be underpinned by a new Education Strategy that is being developed in conjunction with the wider LSE Strategy, to be launched in early 2019, and will be led by the new Pro Director Education. This is the first time the LSE has appointed an external candidate to a Pro Director role. Professor Dilly Fung joins us from UCL where she was a Professor of Higher Education Development and she is an experienced TEF assessor.

The final report was accepted by OfS and in September 2018 LSE was placed on the register of Higher education providers with no conditions. We were pleased that our Students' Union recognised the steps that were taken to address the regulator's concerns. In our joint submission to the OfS our students said "We believe that the School has achieved a sizeable amount of success and we hope that this momentum carries forward post-registration. The School has taken many important steps towards achieving this in the last year and should be commended for their actions, though with the caveat that the completion of a culture change is a process that will take a very long time".

While our NSS results in 2018 were again disappointing the work that the School is committed to is highly focused on making consistent, sustained and marked improvements to the student experience. The School Management Committee (SMC) acknowledge this challenge and look forward to working with our students and the wider LSE community to deliver excellent education and student experience.

After LSE

A degree from LSE is recognised globally and our graduates go on to pursue successful careers in a wide variety of sectors across the world. Employers value an LSE education because of the intellectual rigour of our programmes and the breadth of our students' experiences both within and alongside the curriculum. LSE had an Employer Reputation score of 99.9 per cent in this year's QS World Rankings.

Of those who graduated in 2016-17, 86 per cent progressed on to employment or study within six months with 87 per cent of that work and study defined as being at "professional" level. Our graduates are regularly cited as being amongst the highest earning in the UK. The median salary at six months post-graduation was £30k. 44.3 per cent of graduates were working in the UK, 16.1 per cent elsewhere in Europe and 39.6 per cent in the rest of the world.

LSE prepares students for success in the labour market by providing an extensive programme of careers support and skill development opportunities. A key differentiator in terms of accessing employment is meaningful work experience. Towards the goal of ensuring that all students are able to access relevant opportunities, including within the charity and development sectors, the School has initiated a number of internship schemes. Pilot schemes within our Social Policy and International Relations Departments have provided financial support for 12 students. The LSE Graduate Internship scheme offers graduates significant work experience whilst providing departments an opportunity to utilise the talents of individuals who understand the LSE context and who can provide insight into the student perspective. 18 internships ran under this scheme during 2017-18 with 10 of those centrally funded.

Executive Programmes, Short Courses and other non-traditional taught courses

In recent years, the School has developed a substantial portfolio of teaching activities beyond the traditional one to three year full-time course model.

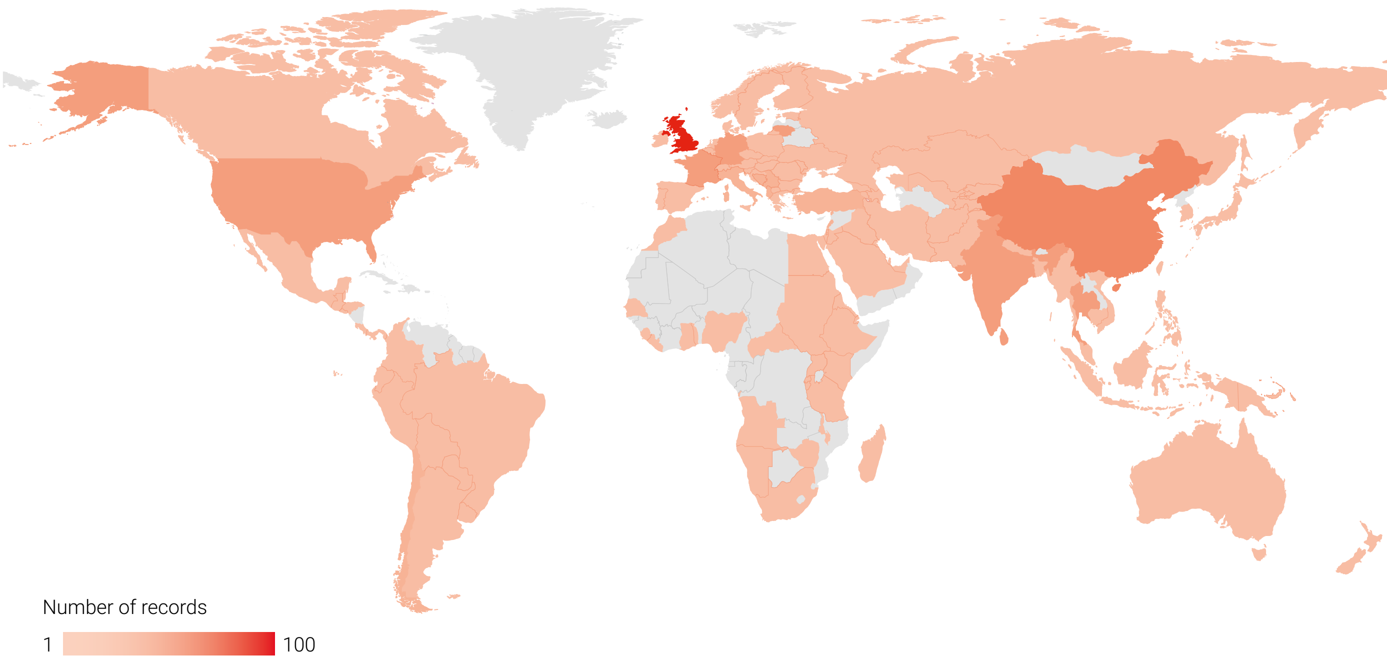
Executive MSc programmes offer a range of degrees for mid-career to senior level professionals bringing them together with the School's broad academic community and our exceptional links externally with policy practitioners. The current portfolio covers behavioural science, diplomacy, management, finance, health, law and the internationally recognised TRIUM MBA which is operated in partnership with NYU Stern and HEC Paris. In total these programmes attracted 120 in 2017-18 and we plan to increase student numbers and courses offered over the next few years.

Summer Schools

The Summer School Programme celebrated its thirtieth anniversary this year and we are proud to note that over that time it has grown to be the largest in Europe and the third largest programme of its kind globally after those run at Berkeley California and Harvard. This year we welcomed 7,247 individual students, a 9.9 percentage increase on 2016-17, to the three sessions run in June, July and August. Overall, we offered 94 courses together with a developed social programme alongside a wide variety of other events that ensures that our campus, Students' Union and halls of residence and catering outlets remain intensively used during the summer.

In addition to this, a separate Executive School has been established offering intensive short courses across the year in business, economics, finance, global public policy and leadership.

Employment locations six months after graduation for 2017-18 graduates – LSE global reach



Online certificate courses

We are now offering short certificate courses, available online from anywhere in the world. These are a suite of interactive and highly supportive online courses designed to offer, to a global audience, relevant and meaningful skills across a range of areas where LSE has an international reputation. The first pilot cohorts enrolled on these programmes in October 2017, with further programmes through 2017-18. To date recruitment has been good and feedback has been very encouraging.

Taken together, these non-traditional courses, along with our International programmes run with the University of London, allow LSE to extend teaching far beyond the limited number of degree programme places and financially it provides the School with the means to attract and retain key faculty and support research.

Higher Education Funding Council for England (HEFCE) and Office for Students (OfS/UKRI) grants

The School's primary sources of direct public funding were HEFCE/OfS recurrent and capital grants and Research Council funding for research projects.

HEFCE was replaced during the year by the Office for Students (OfS) and by Research England which sits within UK Research and Innovation (UKRI) alongside the Research Councils. Our Research Council project related grants from bodies such as ESRC, recurrent quality-related research funding (QR) and specific research grant funding now fall under Research England. The elements of teaching funding that remain following the introduction of higher fees in 2012 are largely initiatives to mitigate the impact of higher fees on the diversity of and access for students to higher education and the higher costs of delivering teaching in central London. This teaching funding now comes within the ambit of OfS.

Recurrent (QR) research funding was flat in cash terms in 2017-18 at £18.6 million, continuing the fall we have experienced in real terms in recent years. This is concerning and does not easily reconcile with our outstanding success in the last Research Excellence Framework (REF), where LSE was placed at or close to the top in the rankings of research quality. The effect of this is to place ever greater pressure on the School's other sources of revenue and while we have sought to grow our ancillary activities such as summer schools we are concerned about the sustainability of this position in the longer term. We also note that changes to QR funding appear to have incorporated GCR funds (Global Challenge Research Funds) with no discernable overall funding increase but an accompanying set of restrictions and procedural requirements that seem to be at odds with the purpose of the QR grant. We would be concerned if this led to an erosion of recurrent QR funding and the current "dual support" funding mechanism, so we are keen to engage with UKRI regarding their future strategy in this area.

Research grants won through Research Council peer reviewed competition are also under pressure and we find increasingly that funders ask institutions to contribute to the costs of the research activities they are commissioning. This approach may have undesirable consequences, such as students effectively subsidising research and pushing HEIs to choose between maintaining high quality research and investing in teaching.

Higher Education Innovation Funding (HEIF) and Connecting Capability Funding (CCF)

On a positive note, we are pleased to report that following a successful pilot in 2016-17, the School created a new research commercialisation service in August 2017; this will support the School's core mission of the betterment of society and our Higher Education Innovation Funding Council (HEIF) strategy. Research commercialisation seeks to exploit the full potential of the School's research, extending our impact beyond conventional public policy interventions to engage and harness private enterprise. A Connecting Capabilities Fund (CCF) grant of £5.0 million from Research England in April 2018 has given the School the opportunity, with its institutional and business partners, to establish Aspect (A Social sciences Platform for Entrepreneurship, Commercialisation and Transformation of the contribution social sciences makes to society), which aims to create a global network of excellence in social science research commercialisation. Aspect funding will allow the School to build a research commercialisation service, to establish with its institutional partners the foundation of a global network, working together to share and develop best practice, and to partner with Zinc, in a novel approach to social sciences research commercialisation.

Zinc is an LSE spin-out which builds companies to address social challenges using an accelerator model. The School has invested £0.7 million of HEIF funding in Zinc, and around £1.3 million CCF first-round funding, with the intention of investing around another £1.0 million of the CCF grant in the next round of funding. We see these investments as an opportunity to generate revenues to contribute to the sustainability of our core research, but we recognise the uncertain nature of direct financial returns from this activity so, at least in the short-term, have adopted a prudent approach reducing its carrying value to nil, as disclosed in note 12. We will review this treatment on a regular basis and adjust it accordingly.

Within the School, the new research commercialisation service sits alongside the School's highly successful consulting activities and student entrepreneurship programme, LSE Generate, within our renamed LSE Research and Innovation Division.

UK Research Partnership Investment Funding (UKRPIF)

In November 2016 we were awarded a £32.0 million grant to fund the Centre Buildings redevelopment, through the (RPIF), matching the significant gift to the School secured from Atlantic Philanthropies for the International Inequality Institute which will be housed in the building. We have accounted for the RPIF grant as deferred income (see note 16) and plan to recognise the grant receipt through the Statement of Consolidated Income when the building opens in 2019.

Analysis of Other Income	2017-18	2016-17	Change	
	£m	£m	£m	%
Residences and catering	39.6	37.6	2.0	5.3%
Other academic activities	2.3	1.8	0.5	27.8%
University of London International Programme	10.3	10.1	0.2	2.0%
LSE Enterprise Limited	8.0	9.3	(1.3)	(14.0%)
Other services rendered and other activities	12.7	14.9	(2.2)	(14.8%)
VAT recovery	1.3	1.6	(0.3)	(18.8%)
Staff and student facilities	0.9	0.7	0.2	28.6%
Sundry	2.2	4.5	(2.3)	(51.1%)
	77.3	80.5	(3.2)	(4.0%)

Other Income

In addition to our core activities of teaching and research the School generates significant revenues from a range of additional activities:

- Consultancy and custom executive education activities delivered through LSE Enterprise Limited.
- Other services rendered which are predominantly the service provided to DFID by our International Growth Centre.
- The International Programme which operates under a collaboration agreement with the University of London International Programme. Through these programmes, LSE academic material was taught to over 18,000 students world-wide in 2017-18. While recruitment to the programme has been falling in recent years due to increased competition, we have been investing heavily to reinvigorate and revitalise the programme and build the engagement of LSE academics and our network of partner institutions. We now see signs that this strategy is beginning to work.
- Our Residences and Catering services operate over 4,000 bed spaces at 12 halls of residence and University of London halls and commercial partners. We provided 484 additional beds at Westminster Bridge giving all our first-year students a place in a hall of residence. Unlike commercial providers of student accommodation, we can offer 31-week contracts to undergraduate students, making our residences far more affordable. We can do this by generating income from commercial letting during vacation periods.
- Sundry income has fallen because the 2016-17 figure included a one-off receipt related to a Right of Light agreement with the developer of a nearby building.

Research grants and contracts

Research income for 2017-18 was £32.9 million, an increase of 2 percent on that of 2016-17, and maintaining its 9 percent share of total income. This income only covers a proportion of the true costs of our research. The School continues to subsidise research from ancillary activities to ensure we continue to deliver on our mission. The mix of funding from different sponsor types has changed slightly from last year. This year sees income from UK Government and other funders falling, mainly due to funding of large research programmes ending, whilst funding from UKRI Research Councils and EU funders continues to benefit from a steady year on year growth. UKRI Research Councils and EU funding makes up 59 per cent of the School's total research income compared to 54 per cent in 2016-17 and 50 percent in 2015-16. The School is currently seeking to diversify its research income streams to mitigate risks attaching to EU funding and pressures on Research Council funding.

The risk of a "no deal" Brexit is real. Despite the UK government's commitment to underwrite EU funding there is a risk of administrative and funding turbulence as UKRI adds as many as 4,000+ new projects to its portfolio, issues new grant agreements and takes on funding payments. Third country status for the UK immediately following Brexit would exclude UK based institutions from hosting ERC awards, which will increase the risk of award holders transferring their grants to institutions in the remaining EU member states. ERC and Marie-Curie awards represent around 77 percent of our EU funding.

Whatever the outcome of the Brexit negotiations, Council remains concerned that a reduction in research funding will fall disproportionately on social sciences.

The Research Excellence Framework (REF) is very important to us and LSE's REF 2021 preparations are now in full swing. The first internal grading of outputs took place during 2018, and a new system to support the School's REF planning and submission is due to go live during autumn 2018.

Summary of investment returns and treasury management	School general and designated funds £m	Endowment funds £m	2017-18 £m	2016-17 £m
Investment income	1.6	2.9	4.5	5.4
Gain on investments	0.5	9.7	10.2	18.3
Return	2.1	12.6	14.7	23.7
Investments	88.0	139.1	227.1	270.5
Cash and cash equivalents	106.8	1.1	107.9	80.1
Other receivables	–	1.4	1.4	1.4
	194.8	141.6	336.4	352.0
Held as:				
Cash and working capital	106.8	1.1	107.9	80.1
Capital Projects Portfolio	39.2	–	39.2	98.4
Gift Matching Portfolio	–	14.8	14.8	21.7
Growth Portfolio	29.3	99.8	129.1	109.7
FER Portfolio	0.6	24.5	25.1	23.5
Strategic Investment Fund	18.9	–	18.9	17.2
Accrued income	–	1.4	1.4	1.4
31 July 2018	194.8	141.6	336.4	
31 July 2017	219.3	132.7		352.0

Investment income, cash and treasury management

Investment income comprises investment returns from the School's working capital, bond funds and equity-based investments.

Our cash and investments comprise cash, currency, bonds and equities and are actively managed to ensure that we maximise our return within the risk parameters associated with the purpose for which the funds are held.

Strategic Investment Fund

For several years we have invested 'surplus' working capital in our long-term Growth Portfolio investment fund. The School's Funding Principles and our 2018 Financial Plan have formalised this fund as the Strategic Investment Fund (SIF) and established it on an enduring basis. The SIF will create added stability and allow for the funding of significant initiatives and investments of strategic importance to the School. SMC will determine the purposes for which the SIF may be used and Council ratify those proposals. It will also, in accordance with our Funding Principles and at an appropriate time, provide a "sinking fund" for the repayment of the School's £125.0 million bond debt.

Philanthropic support received in 2017-18

The presentation of philanthropic gifts in a university's financial statements can be difficult to follow because the Higher Education SORP only allows gifts and donations with restricted uses to be recorded in Endowment reserves. Gifts and donations with flexibility in how they can be used have to be recorded as part of the School's General Reserves, even though we may have "designated" them for specific purposes. As a matter of policy, we seek to work with potential philanthropists to ensure that their support can be used strategically to support the School's priorities.

Philanthropic support received in 2017-18	£m
The Sequoia Trust	6.0
Accounted for as deferred income	(4.0)
The Sequoia Trust (The Marshall Institute of Philanthropy and Social Entrepreneurship)	2.0
Firoz Lalji Centre for Africa	1.4
Annual Fund	0.9
Named Scholarships	0.5
Professor Saw Swee Hock – Southeast Asia Centre	0.4
School General	0.4
Dr Frederik Paulsen Foundation	0.2
Singapore LSE Trust	0.2
Others	2.9
	8.9

The management and performance of our endowment funds is outlined on page 38.

Fundraising statement

The School is registered as a levy payer with the Fundraising regulator, demonstrating our commitment to good fundraising practice and to abide by the Code of Fundraising Practice and Fundraising Promise. There were no complaint returns or adjudications and investigations in 2017-18.

Summary of expenditure	2017-18	2016-17	Change	
	£m	£m	£m	%
Staff costs	190.8	179.9	10.9	6.1%
Net movement in pension provisions	(2.8)	(5.7)	2.9	(50.9%)
Other operating expenses	120.5	121.6	(1.1)	(0.9%)
Operating expenses	308.5	295.8	12.7	4.3%
Depreciation	12.9	12.9	–	–
Interest and other finance costs	8.8	8.9	(0.1)	(1.1%)
Total expenditure before other gains and losses	330.2	317.6	12.6	4.0%

Expenditure

Overall operating expenditure, adjusted for movements in our pension provisions, increased by 4.3 per cent, which although a higher rate of increase than the increase in income during the year is consistent with our planning. Staff cost and numbers were further inflated by the School's decision to bring our cleaning staff in-house during the year, which reallocates £1.6 million from Other Operating Expenses to Staff Costs. The full-year impact of this change will not be seen in the accounts until 2018-19.

We expect 2018-19 to be a difficult year in respect of pay costs. The resolution of the 2017 USS valuation is likely to lead to an increase in employer contributions which, even in the recent proposals of the Joint Expert Panel will add over £2.0 million per annum to pay costs. After year-end the School settled an outstanding pay claim related to lower paid staff with a tapered increase from 5 per cent per annum for the lowest paid staff, adding a further £2.0 million per annum to our pay bill. In addition to these structural pressures we expect to see specific pay pressures, particularly in the higher demand subject areas where the School competes internationally for faculty.

Interest payable comprises interest payments on the School's borrowings, interest rate swaps and a charge based on the agreed future contributions relating to pension scheme past service deficits.

Responsible and sustainable procurement

The School continues to look for savings and value for money opportunities to make the most effective use of its resources. Central to our approach to procurement is the use of competitive tendering and consortium framework agreements and carefully developed and reviewed specifications for goods and services. In addition, our process places emphasis on non-financial aspects of procurement, with suppliers evaluated on their approach and policies on: environmental sustainability; equality, diversity and inclusion; modern slavery; health and safety; information security; and ensuring compliance with the School's commitment to pay staff at or above a London Living wage.

Our sustainable procurement goal is to procure goods and services that meet the School's requirements in ways that maximise efficiency and effectiveness, while minimising social, environmental and other costs.

The total expenditure in 2017-18 that was influenced by procurement through a competitive process was £129.6 million, of which 93.2 per cent was either tendered or procured via framework agreements, with contracts awarded on our approved terms and conditions whenever possible. The remaining 6.8 per cent was procured by either a quotation process or, if under £8k, a single source purchase. We estimate our procurement process delivered savings of over £5.4 million (annual savings based on comparison with average tendered or incumbent supplier charge).

The School recognises its responsibility to deal fairly with its suppliers to ensure that they are able to sustain their businesses. To this end we work to pay all approved invoices in accordance with the agreed terms of payment, which are available on the School's website. At the year-end, the amount due to trade creditors was equivalent to 14 days of purchases. Nothing was paid under the Late Payments of Commercial Debts (Interest) Act 1998.

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 restrictions imposed by USS.

Every three years the USS Trustee must be able to conclude that it has sufficient funds to pay the pensions promised, or a credible plan to recover any shortfall (via a deficit recovery plan which must, by law, aim to eliminate any deficit). At 31 March 2017, triennial valuations for both schemes were made, based on the level of risk the schemes plan to take in the long term, in pursuit of investment returns (which part-fund pensions), expected returns and planned contribution rates.

Based on these factors, USS had a funding deficit of £7.5 billion and is 89 per cent funded and SAUL had a surplus of £56.0 million and was 102 per cent funded. The SAUL position had improved from a £59.0 million deficit at the previous valuation in 2014, whereas USS had declined from a £5.3 billion deficit in 2014. Using a set of prudent funding assumptions, agreed at the time by the USS trustee board following consultation with Universities UK (UUK), maintaining the current level of benefits would require a combined (employer and member) contribution rate of 37.4 percent of pay, which would represent an increase of more than 11 percentage points on the current rate of 26 per cent on pay costs (split 18 percentage points, employer; 8 percentage points, member). This would have included contributions to the deficit recovery of 6 percentage points, an increase from the current 2.1 percentage points taken from contributions.

In January 2018, a proposal that would have reduced contributions to a more affordable level but have made substantial cuts to benefits and suspended the defined benefit element of the scheme was rejected. As a consequence, the scheme trustee invoked "Rule 76.4", effectively reverting to the original position, albeit with some phased introduction of the contribution increases from April 2019.

Joint Expert Panel (JEP) was established to review the 2017 valuation, to take evidence and review the valuation and report in September 2018. The JEP report has been published and has recommended possible ways of reducing the deficit and the cost of future defined benefit provision and also recognised that reaching agreement may require compromise from all sides. Potential responses proposed include employers taking on greater levels of risk, stakeholders paying higher contributions, the trustee updating the valuation assumptions and stakeholders agreeing some moderate adjustment to benefits. Any solution is likely to require a combination of these and must be consistent with the statutory and regulatory duties of the USS Trustee and the Pensions Regulator. At the time of writing, JEP's report had been endorsed by University and College Union (UCU) and Universities UK (UUK) were consulting with employers.

As part of our financial planning process we have modelled the impact of the full increase in USS pension costs which would result if the JEP proposals fail to lead to an alternative settlement. While the cost impact would be very significant and would require some major changes to our current plans, we concluded it could be managed within a reasonable period. We would, however, be very concerned that such a significant increase in costs might not represent the most effective way to deliver retirement benefits to our staff.

The School supports the JEP report as a sound basis upon which to establish an enduring basis for the provision of an attractive, robust and cost-effective pension for our employees. We remain committed to working constructively with all stakeholders to achieve a mutually acceptable solution.

As the School is contributing to a deficit repayment plan for both schemes, the estimated present value of our commitment to enhanced future contributions is required to be recognised in the financial statements. Based on our estimates of future pay costs and a suitable discount factor (see note 18), these provisions are £31.4 million and £Nil as at 31 July 2018 for USS and SAUL, respectively. This calculation is based on the current deficit repayment plan and has not been adjusted to reflect the increase in USS that would take place from April 2019. If the Trustee implements Rule 76.4, a provision calculated on this basis would have been £87.1 million.

This provision is not the same as the School's share of the total scheme deficit which, as it is not separately identifiable, does not require recognition nor does it represent the cost of exiting either scheme – a so-called "Section 75" charge. This figure is significantly higher.

Summarised Group Balance Sheet

	2018 £m	2017 £m	Change +/- £m	%
Tangible and intangible assets	553.0	459.3	93.7	20.4%
Investments	227.1	270.5	(43.4)	(16.0%)
Total non-current assets	780.1	729.8	50.3	6.9%
Stock	0.1	0.1	–	–
Debtors	31.2	28.0	3.2	11.4%
Cash and cash equivalents	107.9	80.2	27.7	34.5%
Total current assets	139.2	108.3	30.9	28.5%
Creditors: falling due in within 1 year	(120.6)	(107.3)	(13.3)	12.4%
Net current assets	18.6	1.1	17.5	1,590.9%
Total assets less current liabilities	798.7	730.9	67.8	9.3%
Creditors: falling due after 1 year	(212.9)	(187.2)	(25.7)	13.7%
Pension provisions	(31.4)	(33.7)	2.3	(6.8%)
Net Assets	**554.4**	**510.0**	**44.4**	**8.7%**
Expendable endowments	53.5	51.4	2.1	4.1%
Permanent endowments	88.1	81.3	6.8	8.4%
Endowment reserves	141.6	132.7	8.9	6.7%
Restricted reserve	4.7	2.7	2.0	74.1%
General reserve	408.1	374.6	33.5	8.9%
Total Reserves	**554.4**	**510.0**	**44.4**	**8.7%**

Balance sheet

We are pleased to report continued strength in the School's balance sheet, with net assets growing by 8.7 per cent during 2017-18 to £554.4 million.

We aim to maintain a strong balance sheet to ensure that we are an attractive partner for long-term funding, be it from those offering philanthropic partnership, grant funding or financial investors. During the year we drew down the balance of our £30.0 million variable rate loan facility. All our debt has been fully hedged either with interest-rate swaps or through fixed-rate bonds, and as a result interest rates are fixed for their term. A consequence of hedging through interest-rate swaps is the requirement to report the mark-to-market valuation of the swap contracts on the balance sheet, which are currently showing a liability of £25.5 million. This is a fall of £3.9 million on the liability at the end of the previous financial year, reflecting that market expectations of future interest rates were higher at the end of 2017-18 than at the start of the period.

Funding strategy

During 2017-18 Council adopted a Statement of Funding Principles which provides a framework for borrowing, investing and applying surpluses. This embodies the School's strategy to fund capital development on a portfolio rather than a building-by-

Net debt

	2016-17 Actual £m	2017-18 Actual £m	Unaudited 2018-19 Budget £m	Unaudited 2019-20 Forecast £m	Unaudited 2020-21 Forecast £m	Unaudited 2021-22 Forecast £m	Unaudited 2022-23 Forecast £m
Net cash/(debt)	51.7	(6.2)	(68.2)	(90.5)	(96.2)	(74.8)	(62.6)
uEBITDA	45.5	45.5	29.0	32.0	36.9	38.4	39.8
Ratio	No net debt	0.1	2.4	2.8	2.6	1.9	1.6

building basis, using cash flow and cash reserves to leverage external grants and donations and periodically raise cash through long-term debt as required.

The School believes that it is appropriate to make use of long-term borrowing to fund the development of its asset-base. Funding new facilities or major modernisation work using long-term borrowing ensures that the cost is borne by those who benefit from the investment in the future.

The School accepts a normal level of borrowing that results in a ratio of Net Debt to uEBITDA in the range 3-3.5. Ratios above this figure are acceptable when they arise because of investment, provided that Council has accepted a business case for the investment and a deleveraging plan is in place that is capable of returning the net debt ratio to a normal level within five to seven years.

Standalone debt, including leases to fund fully operational and marketable assets such as residences may be excluded from this ratio.

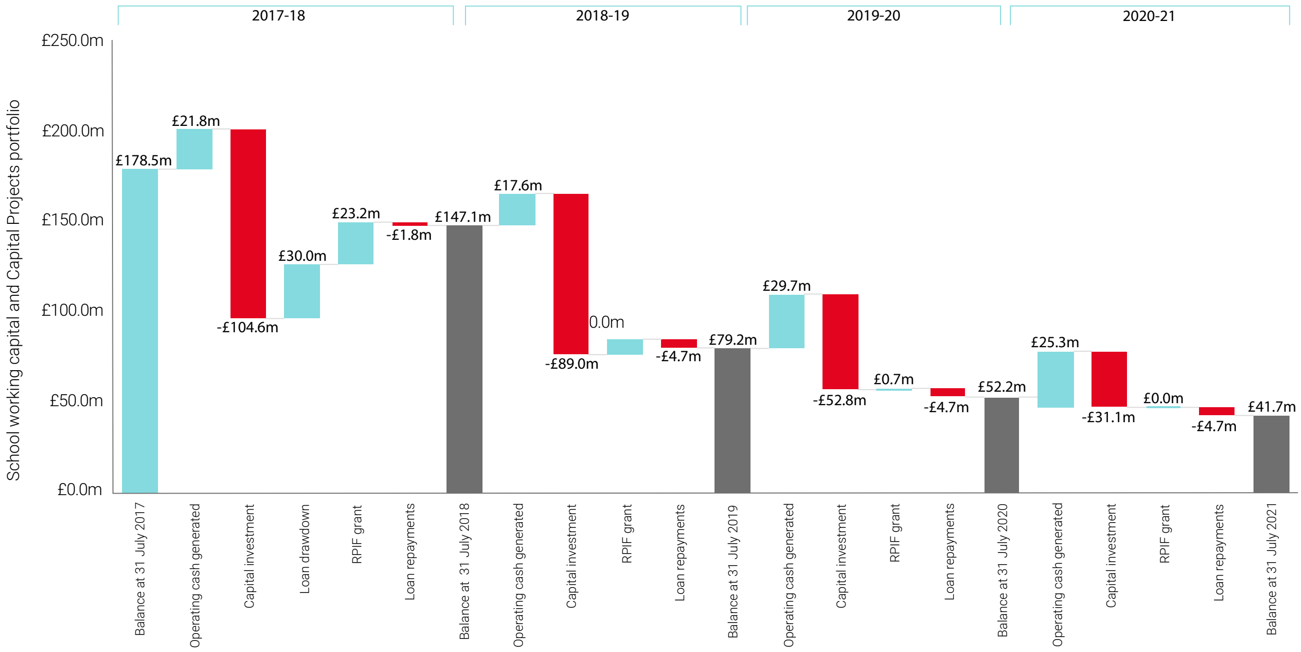
Over the past five years we have generated £180.6 million in operating cash (an annual average of 11.0 per cent of income).

Cash movements

The most important aspect of our financial planning processes is cashflow management.

During 2017-18 there was a net cash inflow of £27.7 million, after the drawing down of the final £30.0 million tranche of our Barclays loan facility. The graph below shows the planned reduction in our unrestricted cash balances through to the completion of our major building redevelopment projects during 2021.

Cash movements



Capital expenditure

During 2017-18 the School spent £105.9 million on capital expenditure. This is significantly higher than our average annual spending as we are undertaking two major building redevelopments and we completed the purchase of the Nuffield Building. We are now at the midpoint of the current phase of the programme to expand and upgrade our academic buildings: redeveloping the Centre Buildings site on Clare Market and 44 Lincoln's Inn Fields (The Marshall Building). During 2017-18 we invested £51.6m in these two projects, bringing the total construction spend to £104.4 million. On completion of the Centre Buildings in 2019 and The Marshall Building in 2021 we will have invested more than £350.0 million, creating two world class academic facilities which are comparable with the very best globally and represent a step-change in the quality of our academic estate.

On 1 August 2017 the School completed the purchase of the Nuffield Building. The location of this property, on the south side of Lincoln's Inn Fields, between The Marshall Building and our Economics building at 32 Lincoln's Inn Fields makes this an acquisition of strategic importance and allows us to consolidate our campus around the south side of Lincoln's Inn Fields. We do not gain vacant possession until 2021 but that will allow us time to develop robust and sustainable plans for its use and to secure donations and other support to fund the development.

We report fixed assets at cost less accumulated depreciation. After careful consideration we have concluded that while the market value of the School's estate is significantly higher than book value, to show all or some of the properties at market value would not offer the reader of these statements any greater insight into the School's operations. Had that approach been taken we estimate that the value of the School's freehold and leasehold property would have been approximately £1.1 billion. The option to adopt a revaluation policy remains available and it will be considered periodically in future.

Taxation

The School is an exempt charity within the meaning of the Charities Act 2011 and recognised as a charity by HM Revenue and Customs. Our commercial trading activities are undertaken through subsidiary companies.

Indirect tax (VAT) and payroll taxes collected and paid – PAYE, National Insurance contributions, student loan repayments and Apprenticeship Levy charges – amounted to £16.1 million and £55.9 million respectively. We recognised £41.1 million in operating income from HEFCE, Research Councils, and government departments during 2017-18 and received a further £23.2 million in capital funding during the year.

LSE is committed to ensuring that it continues to meet its responsibility for governance, risk management and decisions made in relation to taxation. We aim to comply fully with our legal obligations and engage openly with tax authorities and other stakeholders whilst also effectively managing our tax expense. Each year we review our tax strategy and publish it on our website.

Strategic Risks

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 helps to achieve these strategic objectives, whilst protecting the School's stakeholders, reputation and sustainability.

Risk management processes

The School Management Committee (SMC) monitors and reviews emerging and changing risks throughout the year. Its processes are reviewed by Audit Committee, and a termly report is made to Council.

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, and the risk framework will contribute towards the development of a new Strategic Plan.

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 and these 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.

Regulatory changes

The changing regulatory environment in which LSE now operates has redefined the exogenous risks facing the School. The School is mindful that its relationship with its regulator, the Office for Students (OfS), is vital to maintaining our position as a world-leading centre of education.

We are reforming the governance of education to ensure we continue to address issues raised by the OfS. LSE continues to boast an exceptional graduate record, as evidenced by students' high attainment and outstanding performance in highly-skilled job markets, which remain outside the TEF metrics. The School will look forward to working with the Government in reviewing and revising the TEF in the future.

The other recent change to the HE regulatory framework is the transfer of responsibility for core funding of Research to Research England, a body that sits within UK Research and Innovation (UKRI). The Research Councils, which are responsible for allocating research project funding have moved and now sit within UKRI. These changes bring together the two strands of government research funding, the "dual support" system. While the School welcomes the opportunity to bring increased coordination of funding and objectives, it may risk creating a drift away from the dual support system to a single funding system. Such a change could erode the sector's capacity to undertake innovative work, particularly if funds were increasingly allocated to purely project and initiative-based funding. Similarly, if the change heralded an increase in Research Councils requiring institutional contribution to the costs of research and dissemination, the capacity for innovative research would be eroded.

Brexit

The fallout from the vote to leave the European Union ("Brexit") continues to present both risks and opportunities to the School's strategic aims. With the United Kingdom due to leave the EU in March 2019, the reality of what Brexit means has begun to take shape, albeit a sense of considerable uncertainty persists.

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 environment in which the School operates. The persistence of uncertainty will doubtless bring short- and 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. Remaining true to our mission, we expect the School to remain at the forefront in understanding, forecasting, analysing and explaining these changes, as they occur.

The SMC continues to co-ordinate work across the full range of the School's activities, considering the implications for the future of developments in student and staff recruitment and retention, current applications being developed, 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 the following risks to its model:

- SR1: That fewer high-quality students choose the LSE because of educational factors.
- SR2: That the School's reputation for education leads to punitive action by its regulator.
- SR3: That fewer high-quality students choose the LSE because of competitive and related factors.
- SR4: That the School lacks consistency in innovating and monitoring the academic portfolio.

The international profile of its student body means that the School monitors issues such as the UK Visas and Immigration student visa policy, and the way political language around immigration might create a hostile environment to foreign staff and students – particularly following Brexit – as external factors which may deter some students from applying to study in the UK. We avoid over-reliance on key markets, which could make the School vulnerable to developments by global competitors, or geo-political events. Other internal factors, such as established structures for programme allocation, may affect the School's income from student fees.

Business model

- SR5: That the School fails to generate enough revenue from other activities to support academic excellence or innovation.
- SR6: 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 to 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.

- SR7: That the School's research quality, reputation and impact decline.
- SR8: 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 REF Strategy Committee 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 UK Government has guaranteed to underwrite existing funding from Horizon 2020, which 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 already 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 research staff. Any strategy for research must address this risk at its core, as the loss of key staff would both reduce the School's profile and enhance that of competitors.

Pensions

School employees participate in two pension schemes, USS and SAUL. At the time of writing and contribution changes, there is uncertainty regarding the extent of employee benefit and employer contribution changes to USS that the Trustees may be required to implement from April 2019 in order to satisfy the Pension Regulator. Failure to reach an acceptable solution could have a significant financial impact on staff and on institutions themselves which could be compounded by industrial action by staff. Resolving this situation is further complicated by the multi-employer nature of the scheme. The School remains fully committed to providing all its staff with attractive and affordable pension benefits and we will continue to do all we can to encourage a timely resolution of this matter.

Internal processes and governance

- SR9: That the School's complex management and governance structures and processes fail to promote, and actively impede, the innovation and growth required for longer term financial stability.
- SR10: That the School's internal communications systems (including, but not limited to, the communication of governance decisions) fail to convey strategic priorities to relevant staff and/or students.

The changing environment in which it operates has caused the SMC to become ever more mindful and vigilant over the School's internal processes. Consequently, two longstanding operational risks have been raised to the Strategic Risk Register (SR9 and SR10), as they focus on the School's internal organisation and communication. Changes to the governance structure, and recalibration of processes driven by the work of our new Business Improvement Unit, will build on the established mechanisms for internal review, and provide a more effective structural response to the identification and mitigation of process risk.

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 new initiatives are proposed and implemented, to foster equitable treatment for all at LSE.

In 2017-18 we implemented a package of changes to the pay for a significant number of academic and research staff that were designed to address issues of inequity, particularly around gender that had been identified through a rigorous and detailed review. All changes to pay were effective from 1 August 2017. In March 2018, LSE's first Gender Pay Gap Report was released and, following this, innovative approaches to recruitment are being explored and implemented to promote fairness at each stage of recruitment and to ensure that LSE attracts more diverse top talent. The flagship project this year is the development of an "anonymous application" recruitment system that will hide gender and age-related information in order to prevent unconscious bias in the early recruitment stages.

The School's Equity, Diversity and Inclusion policy statement applies 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.

Employment

The School promotes equality of opportunity for staff from all social, cultural and economic backgrounds and ensures freedom from discrimination on the basis of disability, gender, race, age, religion or belief, or sexual orientation, or personal circumstances. Equality and diversity are integral to the School's priorities and objectives. The School supports inter-faith and inter-cultural dialogue and understanding and encourages all students to play a full and active role in wider engagement with society. The School's policy of employment with regard to disabled persons is to consider positively any registered disabled person who may apply for a post and provide similar opportunities for training, career development and promotion as for other members of staff.

Public benefit statement

As well as being a company limited by guarantee, LSE is also exempt charity under the terms of the Charities Act 2011. The members of Council are the trustees of the Charity. The School's objectives are set out in our Memorandum and Articles of Association; the public benefit objectives include providing liberal and quality education, promoting and assisting research, and the advancement of learning in the branches of knowledge dealt with by the School. Since its

foundation, LSE has sought to apply teaching and research to improve society, and that goal remains unchanged today. The following narrative explains how the School has delivered public benefit during the year. In reviewing the School's objectives and activities the Council has had due regard to the guidance on public benefit published by the Charity Commission.

Providing liberal and quality education

Work with Schools and Colleges

There are direct links between underrepresentation in higher education and broader issues of equality and social inclusion and LSE has been working systematically to address these for over two decades. 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 support them in exploring their options, making decisions about their future, and access to university if that is their chosen route.

This year, we continued work with schools and colleges in the UK and offered a range of activities aimed at pupils, their teachers, advisors, and adult learners. The schemes that make up our programme of activity are free for schools and colleges, being fully funded by LSE and through the generous support of private donors. The schemes are wide ranging and include providing bespoke sessions at schools and colleges to support the university application process, taster days, student shadowing opportunities, summer schools and open days. The programmes are not limited to students considering applying to universities. Initiatives like our Aiming for College (ACE) sessions for Years 7-9 students aim to engage with pupils to dispel myths about higher education and highlight that education progression can be a positive experience.

Other short term interactive activities and events include Introduction to the Social Sciences, the Black Achievement Conference and the Politics Conference. Pathways to Law, Pathways to Banking and Finance, LSE Choice and Year 11 Summer School are longer term schemes delivered on campus working with young people for up to two years supporting their academic attainment alongside progression in education and thoughts about future careers. In addition LSE students deliver in-school programmes as tutors and mentors working with young people, on an individual or group basis, with young people in Years 9-12. These schemes support participants with their GCSE and A level assessments alongside their ongoing development of key transferable skills such as communication, confidence and study skills.

Admissions

Research published in 2017 by the thinktank REFORM assessed the measures adopted by 29 leading universities to increase access and found that from 2011-12 to 2015-16 LSE had made the most progress in this area. We are proud to have increased our proportional intake of disadvantaged students more than any other high-tariff English university over the last five years.

This year the LSE was also recognised for its work on widening access and admissions at the Times Higher Education Leadership and Management Awards. The Undergraduate Admissions team won the award for Excellence in Registry Services following the introduction of a system which has enabled the School to widen access by including social and educational contextual factors as part of its holistic decision-making process. LSE attracts more than 20,000 applicants for its 1,600 undergraduate places each academic year. Using a flagging system that included social metrics such as postcodes as well as educational achievement, they were able to assess academic performance within a much wider context.

Removing financial barriers

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 continues to build on past success, committing a substantial portion of fee income above the basic fee cap to be recycled back into student success, access, progression and financial support measures. In addition, we have introduced an LSE Accommodation Bursary to encourage students from lower-income households to apply for accommodation in halls. The amounts awarded ranged from £750 to £2,500, the larger sums being awarded to applicants with lower annual household incomes.

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 and 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. We are also able to provide support during students' period of study, where unforeseen needs arise, through our Student Support Fund.

Advancement of Learning

The Library

LSE Library is one of the largest social sciences libraries in Europe, with designated status as the British Library of Political and Economic Science from Arts Council England. It is open to members of the public who need to use its collections. We curate three free public exhibitions each year, drawing on the collections and collaborating with LSE academic staff. In 2017-18, the exhibitions, Journeys to Independence: India, Pakistan and Bangladesh; A Time for Revolutions: Making the Welfare State and At Last!: Votes for Women attracted over 28,000 visitors.

We have developed an education and outreach programme to build on existing work with schools and community groups and in October 2017 we appointed an Education and Outreach Officer to extend the range of the programme. The Library's collections are useful for schools studying history, citizenship, sociology and politics, particularly in topics related to the welfare state, social and political activism in a variety of movements, LGBT+ rights and campaigns, women's rights and changes in the role of women. In 2017-18, the Library delivered 30 school workshops – 23 onsite visits; 7 delivered at the schools – to 1,230 students. This year saw 10 new schools visit, including for the first time three London primary schools.

Visiting schools have been from a wide geographical area, including Tower Hamlets, Camden, Hackney, Leicester, Sussex, Norfolk and Kent. In addition to providing support for subjects such as history and sociology or social studies, the Library has seen a growth in demand for our support in secondary students undertaking their Extended Project Qualification (EPQ) in Year 12. LSE Widening Participation programmes such as LSE CHOICE and Pathways to Law and Finance all include library access and use for their students. New online teaching resources for schools were launched in 2018 to enable teachers to access and adapt relating to the making of the welfare state and women's suffrage and have had 700 downloads.

2017-18 has seen an extensive public programme of events including marking the centenary of women's suffrage with a year-long programme, LSE Suffrage 18 inspired by the Women's Library collection. Activities have included public lectures, exhibition talks, book talks, panel discussions, film screenings, music and performance, and art exhibits and workshops. LSE was also a hub for the LGBT History Festival Outing the Past in February 2018 with panel discussions and archive exhibits. A total of 39 public events were attended by 1,950 people and 942 people participated in adult and family learning activities at a variety of locations such as the Tower of London, Museum of London, University College London and the London Metropolitan Archives. LSE Library has also supported external projects, particularly around the centenary of women's suffrage which have provided wider exposure and access to the collections. Recent project partners include the Mayor of London and Google Arts and Culture in the delivery of an online resource on women's suffrage; creation and display of 100 Banners with Digital Drama, Scarabeus Aerial Theatre, and Parliament Hill Girls School who created a performance and exhibition on women's rights; Parliament and Royal Holloway, University of London who produced an online course, Beyond the Ballot: Women's Rights and Suffrage including contributions from LSE curators and LSE collections; Tower Hamlets Library and Archives on their Women's Hall Exhibition.

Public Events

In 2017-18 the LSE's Public Events programme hosted over 220 lectures, debates, exhibitions and concerts. Speakers included Germany's Minister of Defence Dr Ursula von der Leyen, Chief Executive Officer for the World Bank Kristalina Georgieva, United Nations Special Envoy for Global Education and former Prime Minister of the United Kingdom Gordon Brown, President of the Republic of Panama Juan Carlos Varela and Former Prime Minister of Belgium Guy Verhofstad. 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 platforms such as Twitter, Facebook, RSS, Apple Podcasts, Soundcloud, YouTube, etc. In 2017-18, there were more than 10 million views of the School's rich media offerings via video and audio podcast.

Marking 75 years since the publication of the Beveridge Report that laid the foundation for the post-war welfare state the School organised the LSE Festival: Beveridge 2.0, exploring today's 'Five Giants' of the challenges of poverty; health and social care; education and skills; housing and urbanisation; and the future of work. Alongside the core programme, there were three exhibitions as well as activities to engage children and widening participation students. 4,153 people attended 33 events over the Festival week. Through social media, we have reached 591,869 users on Facebook, with over 12,768 engaged users and 12.6 million users on Twitter. Furthermore, we had 93 entries to the Research Competition, with 41 shortlisted to appear in an exhibition and seven prizes awarded, plus five runners up.

LSE Thinks was launched to showcase LSE academics and researchers who are applying their expertise to some of the most pressing issues facing us today. The series is designed to highlight examples of our world-leading academics informing key public debates and discussions through research, blog posts, interviews, public lectures, podcasts and news stories.

Promoting and Assisting 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, Asia Research Centre, the Centre for Analysis of Social Exclusion, the Centre for Economic Performance, and the Department of International Development.

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

The advancement of citizenship or community development: LSE Cities, the Spatial Economics Research Centre, the Centre for Analysis of Social Exclusion, the Marshall Institute for Philanthropy and Social Entrepreneurship, and the International Inequalities Institute.

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

In February 2018, the School was awarded one of the prestigious Queen's Anniversary Prizes for Higher and Further Education for LSE Cities' broad range of research, education and outreach activities. The prize, which is part of the UK honours system, is given biennially to institutions across the UK, recognising excellence in a number of key academic areas which have had impact on society and the wider community. LSE's award is in recognition of LSE Cities' work on training, research and policy formulation for cities of the future and a new generation of urban leaders around the world. The award ceremony took place at Buckingham Palace on 22 February 2018.

In 2017-18 we took the first steps towards a new vision to mobilise social science research for the betterment of society through the medium of entrepreneurs and businesses, as well as through policy makers, thanks to the successful award earlier this year of a Connecting Capabilities Fund grant of £5.0 million from HEFCE, now Research England. It is a collaborative award to support social science research collaboration, and is led by LSE in partnership with the Universities of Oxford, Manchester, Sheffield and Sussex. Additionally the School has strong links with the Zinc Programme, which sponsors 50 entrepreneurs per cohort to create companies which will solve critical social problems. Each cohort works on a defined social mission, which the School helps to shape; the mission of the second cohort is to unlock new opportunities for people in places hard-hit by globalisation and automation. Our academics will be working with the cohort to provide them with the leading insights from social science research on the issue and potential solutions, and may choose to work more closely with them in the actual development of solutions.

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

- Research by Dr Huseyin Naci revealed most cancer drugs which arrive on the market come with little evidence that they boost survival or wellbeing of patients
- The co-authored study by Professor Wendy Sigle found greater numbers of women elected to political office is associated with an increase in life expectancies of women and children.
- A study led by Dr Marco Tosi on the negative impact of "boomerang" children on their parents' quality of life.
- Research by Dr Rodolfo Leyva on how watching reality TV and other materialistic media messaging makes people less sympathetic to the poor.
- Research by Professor Sonia Livingstone and Dr Alicia Blum-Ross for the Parenting for a Digital Future project showed how digital media can, contrary to popular opinion, enhance family life.

Other public benefit activities

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 and its mission to inspire and empower the LSE community to volunteer for causes they are passionate about. In 2017-18, the Centre saw a huge amount of interest from students who wanted to get involved in volunteering and our research shows that almost 40 per cent of them do during their time at LSE, rising to over 60 per cent amongst our undergraduates. LSE students fulfil a range of roles including mentoring, campaigning, fundraising, marketing, research and many more. Students who volunteer say that they have wider groups of friends, feel part of LSE and the community are more confident in themselves and have skills that employers will value – 70 per cent say that volunteering improves the LSE experience.

The Volunteer Centre works with over 400 organisations promoting almost 1,000 opportunities to students. In the past year over 100 organisations were welcomed onto campus for volunteering fairs, panels and other events. We are proud to be making a difference, both to the students and to those reached by their volunteering.

Thank you

Finally, the School 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.

Directors

The directors of the Company are listed at page 70.

Independent Auditors

The Company's current external independent auditors are PriceWaterhouseCoopers LLP.

Disclosure of information to auditors

At the date of making this report each of the company's directors, as set out on page 70, confirms the following:

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

The Strategic Report and Report of the Directors was approved by Council on 20 November 2018.

Dame Minouche Shafik
Director


The
Old Curiosity Shop
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STUDENT
ACTION
FOR
REFUGEES

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 Council is the Governing Body of the School and its members are charity trustees and company directors and as such are expected to discharge their duties with prudence and care and to accept ultimate responsibility for the affairs of the School.

During the transition between HEFCE and the OfS the School was subject to the conditions set out in HEFCE's Memorandum of Assurance and Accountability between HEFCE and Institutions for receipt of HEFCE grants until these were superseded by the Office for Student's Terms and Conditions of Funding for Higher Education Institutions on 1 April 2018. The conditions of both frameworks have been met during 2017-18. LSE is committed to upholding best practice in all aspects of corporate governance and endeavours to conduct its business in accordance with 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 Code which all members of the LSE community including staff, students and Governors are expected to observe. 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 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. A full list of Council members from 1 August 2017 to 31 July 2018 and up to the date of signing these financial statements can be found on page 70. Council's primary role is to provide strategic leadership and to maintain a focus on areas identified as being of strategic importance. It is responsible for the system of internal control operating within the School and for ensuring it is effective, based on reports and views from its Committees, detailed below.

Audit Committee

The Audit Committee is a committee of the Council. It is chaired by a lay member of Council and meets at least four times a year. It is responsible for advising the Council on the effectiveness of the School's risk management and controls systems. Both the External and Internal Auditors provide the Committee with detailed reports and attend meetings to discuss findings and recommendations for the improvement of systems of internal control, together with management's response and implementation plans. The reports to the Audit Committee include the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement, which was included in the Committee's report to HEFCE in December 2017.

The Audit Committee provides an annual opinion on risk management, control and governance.

Estates Strategy Committee

The Estates Strategy Committee is responsible for overseeing the implementation of strategic priorities relating to the estate, including capital projects.

Ethics Policy Committee

The Ethics Policy Committee remit is to ensure that the School's Ethics Code is communicated and embedded in the life and work of the LSE through the plans, policies, procedures, guidelines and other documents which govern and inform the conduct of the business of the School.

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 Financial Regulations are approved by the Council annually, and are available online. These set out policies related to capital expenditure. The School has three main categories of capital expenditure: buildings and estate related; IT related; and catering equipment. Capital expenditure on land, buildings, furniture, equipment and associated costs are only normally considered 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 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.

Health and Safety Assurance Committee

The Health and Safety Assurance Committee, chaired by a lay member of Council, meets at least once a year. It is responsible for monitoring both health and safety performance and the delivery of strategic health and safety objectives. In June 2018 Council reviewed its committee structure and agreed that this committee should be disbanded and that Council would directly monitor health and safety strategic performance.

Remuneration Committee

The Remuneration Committee oversees remuneration arrangements for senior staff. Following a review the Remuneration Committee action has been taken to ensure the committee complies with the Committee of University Chairs (CUC) Higher Education Senior Staff Remuneration Code.

The Academic Board

The Academic Board is the principal academic body of the School. It reports to the Council and is chaired by the Director and 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 and academic planning and resources. 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.

Academic, Planning and Resources Committee

A key committee within the governance structure and reporting to the Academic Board, it has responsibility for the periodic reviews of academic unit (Departments and Institutes) performance as a basis for resource allocation and for institutional planning, development and effectiveness.

The Court

The Court forms the company membership of LSE. It may have up to 100 members at any one time. 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, the award of Honorary Fellows of the School; approval of changes to the Memorandum and Articles and appointment of the School's external auditors.

Nominations Committee

The Nominations Committee is a Committee of Court, to which it makes recommendations on Court and Council membership (with the exception of student and academic members), membership and Chairs of Court and Council committees, and considers nominations from the School community for the awards of Honorary Fellows.

Chair and Vice Chair Selection Committee

Also a Committee of Court, it conducts the search for, and recommends the appointment of, the Vice Chairs of Court and the Chair of Court and Council. The Committee was not convened in 2017-18.

Controls Framework

The Council confirms that it complies with the CUC Higher Education Code of Governance (December 2014). 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 School Memorandum and Articles and both the HEFCE Memorandum of Assurance and Accountability and the OfS Terms and Conditions of Funding for Higher Education Institutions. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve objectives, including missing appropriate opportunities. It can therefore only provide reasonable and not absolute assurance of effectiveness. The School's controls assurance come from a variety of sources, including:

- Review of the strategic and operational risk registers, 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 team together with in-depth quinquennial reviews by the Academic Planning and Resources Committee involving independent expert assessors. The Research Committee oversees regular performance reviews of research units;

- Monitoring by the Director and the School Management Committee of various work streams arising from strategic priorities and regular risk analysis, advised by a dedicated risk manager;
- 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;
- The School's internal audit service 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 annual 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 detailing financial controls and procedures approved by the Council;
- Regular reviews of the effectiveness of the Council;
- Written reports from the Director to the Council providing transparency and opportunity for constructive challenge.

Internal and external audit services

Throughout 2017-18 the School's internal audit service was provided by KPMG 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 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. The School's Internal Audit service operates to standards defined in the HEFCE and OfS Codes of Practice.

Declaration of the Council

In accordance with the Companies Act, the Council, as directors, are responsible for the administration and management of the School's affairs, including running an effective system of internal controls, and is required to present audited financial statements for each financial year. The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the School and enable it to ensure that the financial statements are prepared in accordance with the Companies Act, the latest Statement of Recommended Practice on Accounting in Further and Higher Education Institutions and other relevant accounting standards. In addition, within the OfS and HEFCE terms and conditions of funding, 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;
- Financial statements were prepared on the going concern basis. The Council is satisfied that the School has adequate resources to continue in operation through 2018 and 2019. 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 sustainability report

Sustainability is a key commitment of LSE's 2020 Strategy and Ethics Code, and is embraced from leadership level down to the everyday working life of the School. In 2017-18, we delivered strong progress on LSE's Sustainability Policy.

Leadership and Governance

LSE came 14th in the People and Planet "Green" University League – an independent ranking of UK universities' environmental and ethical performance. We are one of only six institutions in the country to have appeared in the top tier of the League for the eighth year in a row.

Our Environmental and Energy Management System retained certification to the ISO 14001 and 50001 standards, which we have held since 2012 and 2015 respectively.

Operations and Estate

Between 2005 and 2017, we cut our carbon emissions by 26 per cent, despite our estate expanding by 17 per cent, and student and staff numbers growing by 30 per cent. Over the same period, our "carbon intensity" – a measure of efficiency – improved by 37 per cent.

This was down to a successful programme of energy-efficient retrofits, using the Mayor of London's RE:FIT programme which supports energy-saving projects in public buildings. A further £2.0 million investment is planned to deliver additional savings in the coming year. We also procured a new contract for computers, which stipulated they must be energy-efficient.

The Marshall Building achieved BREEAM 'Excellent' (Design) certification for sustainable construction, and the Centre Buildings and Saw Swee Hock Student Centre were finalists in the international BREEAM awards. The Centre Buildings also featured in the annual Green Sky Cities festival for sustainability in the built environment.

We recycled, composted or re-used 60.6 per cent of our waste, an increase of 3.3 per cent from last year. We continued to send zero waste to landfill. In light of public concern around single-use plastics, we also stopped giving out plastic straws in catering outlets, whilst increasing the discount for people buying their coffee in a re-usable cup. Director Minouche Shafik made a public pledge to avoid single-use plastics, and committed LSE to launching a new campaign – #Plastic-FreeLSE – with the same aim.

LSE Catering retained our "Two Star – Excellent" rating from the Sustainable Restaurant Association; whilst the four catered halls of residences achieved Soil Association's Food for Life Served Here "Silver" Award.

Partnerships and engagement

With London's air quality increasingly in the public eye, LSE has developed its approach to help minimise as far as possible the impact of poor air quality on our community. We also joined the steering group of a local "Low-Emissions Neighbourhood", run by the Northbank Business Improvement District, which will see the Mayor invest £330k in measures to enhance air quality and the public realm around the LSE campus.

LSE Careers and LSE LIFE launched "Work It Out", a series of workshops to help students explore careers that help benefit society.

Psychology student Lucas Fuhrmann was a finalist in the Mayor's Entrepreneur competition, with his start-up that invented a way to create new fabric from waste banana tree stumps.

LSE's Sustainable Projects Fund continued to support student sustainability projects, including several to cut waste and disposable plastics.

LSE held numerous public events on sustainable development, including a talk by Kate Raworth on "Doughnut Economics", and the Canadian Minister of Environment and Climate Change, Catherine McKenna. The Beveridge 2.0 Festival held an event on sustainable food, featuring activists, academics and practitioners, as well as free samples of unusual sustainable food and live research on ethical food choice behaviours.

Students in halls of residences took part in the Student Switch-Off and Reduce the Juice competitions, which cut energy, waste and water usage in halls. 24 LSE departments took part in Green Impact, which saw the LSE 100 team go vegetarian for a whole month.

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

Endowment Investment Performance

Funding from philanthropy, along with tuition fees, recurrent 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 student bursaries, 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.

During the 2017-18 financial year, the School's endowment grew from £132.7 million to £141.6 million.

The growth in the endowment came in part from private donations which have established centres, chairs, lectureships, and scholarships with the remaining contributions from the investment of the endowments. 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".

Portfolios and their objectives

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 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 a total return over the long term of four per cent per annum plus the Retail Price Index (RPI). The funds are largely invested in a range of investment funds covering quoted equities and property.

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 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 a long term total investment return of four per cent per annum plus the Retail Price Index of which about £530k is used to fund annual operating costs of STICERD.

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 Committee is also responsible for monitoring the investment of School funds held for working capital, capital projects and investment.

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

The Committee is also responsible for implementing the School's Socially Responsible Investment Policy (SRI Policy) through its oversight of the portfolios' exposure to the designated areas. The SRI policy requires investment decisions to take into account environmental social and corporate governance (ESG) issues in managing the endowment funds in accordance with the six UN Principles for Responsible investing (PRI) and LSE's ethical standards. These PRI principles focus on engagement by investors with investee companies to encourage improved SRI behaviours especially in relation to ESG performance. The Committee has therefore engaged directly with each of our fund

Investment performance

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

Investment return	1 year	3 years	3 years cumulative return	5 years	5 years cumulative return	Long-term objectives
Growth	10.3%	12.6%	42.7%	9.9%	60.5%	–
Gift matching	0.3%	2.0%	6.1%	–	–	–
Gift matching and growth combined	9.1%	10.9%	36.3%	8.8%	52.8%	4% +RPI
FER	8.9%	11.6%	39.0%	9.0%	54.2%	4% +RPI

Performance in the year exceeded the long term target of RPI+4% by about 2% overall and over the last five years has delivered a return of RPI+6.4%.

managers to assess the quality and impact of their engagements with the investee companies on ESG matters. This has established a base line rating from which to assess the future development of these managers' SRI behaviours. Follow up discussions with several of those managers with identified shortcomings have elicited an explanation of their plans to improve which will be monitored when we repeat this exercise during 2018-19. We are pleased to see that many of the School's chosen fund managers are beginning to engage meaningfully in this area and we look forward to continuing this conversation during 2019.

The Committee has also discussed with UNPRI the basis on which the School could be rated by UNPRI in respect of its endowment investment activities. A proposal from UNPRI is currently being considered.

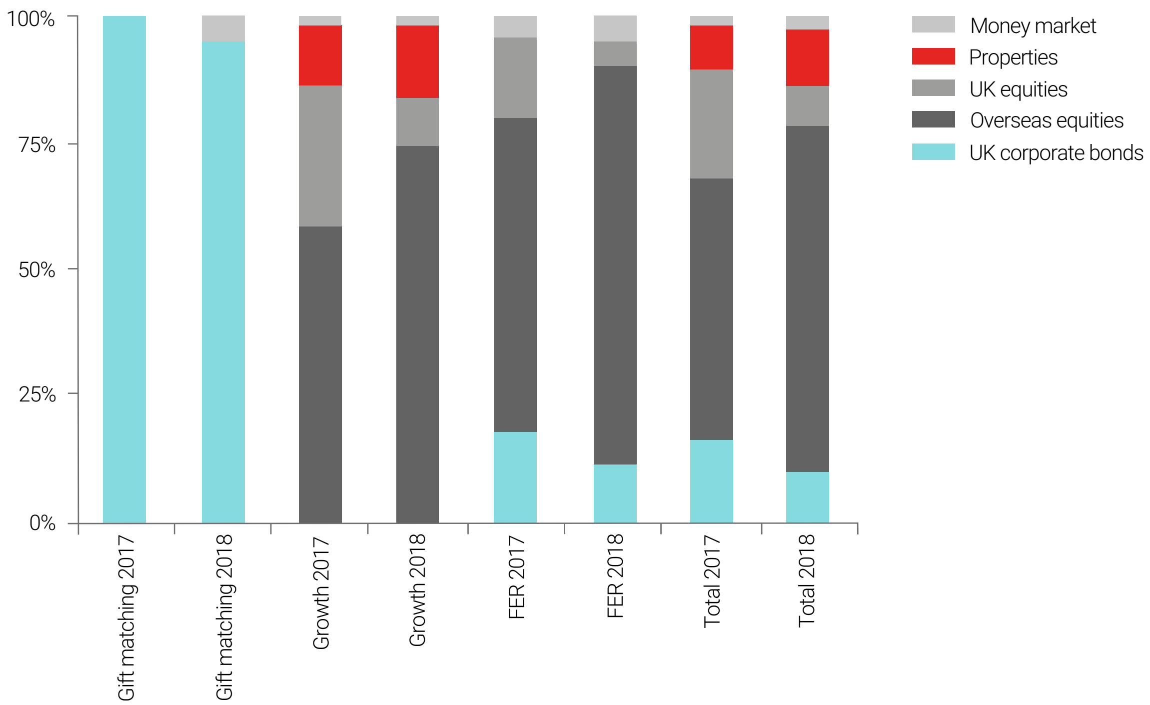
Asset allocation

The decision taken by the Committee in 2016-17 to replace investments in UK equity funds by global equity funds was further implemented in 2017-18 leading to a marked change in the asset allocation.

The change in proportion of passively and actively managed funds for the combined Gift Matching and Growth funds is illustrated below. The FER remains invested entirely in passively managed funds.

Asset allocation

	Gift matching		Growth		FER		Total	
	2017	2018	2017	2018	2017	2018	2017	2018
	%	%	%	%	%	%	%	%
UK equities	–	–	28	9	17	5	22	8
Overseas equities	–	–	59	75	63	80	52	69
UK corporate bonds	100	95	–	–	17	11	16	10
Properties	–	–	12	14	–	–	9	11
Money market	–	5	1	2	3	4	1	2



Independent auditors' report to the Council of the London School of Economics and Political Science (the "School")

Report on the audit of the financial statements

Our opinion

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

- give a true and fair view of the state of the group's and of the parent School's affairs as at 31 July 2018 and of the group's income and expenditure, gains and losses, changes in reserves and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law);
- have been properly prepared in accordance with the requirements of the Statement of Recommended Practice – Accounting for Further and Higher Education, and the requirements of the Office for Students' ("OfS's") Accounts direction (OfS 2018.26); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Financial Statements (the "Annual Report"), which comprise, the Consolidated and School Balance Sheets as at 31 July 2018; the Consolidated Statement of Comprehensive Income and Expenditure, the Consolidated and School Statement of Changes in Reserves, and the consolidated Cash Flow Statement for the year then ended; and the accounting policies; and the notes to the financial statements, which include other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Council's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Council has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group and parent institution's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group and parent institution's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Council is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit the information given in the Strategic Report and Report of the Directors, for the year ended 31 July 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Council for the financial statements

As explained more fully in the Declaration of the Council set out on page 35, the Council (whose members are also the directors of the institution for the purposes of company law) is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Council is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Council is responsible for assessing the group and parent institution's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to liquidate the group and parent institution or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Opinions on other matters prescribed in the OfS and Research England Audit Code of Practice issued under the Further and Higher Education Act 1992 (as amended). 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 the Higher Education Funding Council for England, the OfS and Research England have been applied in accordance with the relevant terms and conditions, and any other terms and conditions attached to them.

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
- certain disclosures of directors' remuneration specified by law are not made; 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.

Ian Looker (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

20 November 2018

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 (VAT), 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 45 to 69.

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, the OfS Accounts Direction 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).

Going concern

The School meets its day-to-day working capital requirements through managing liquidity and through its bank facilities. The School's Financial Plan, taking account of reasonably possible changes in performance, shows that the School should be able to operate within the level of its current facilities. The directors have a reasonable expectation that the School has adequate resources to continue in operational existence for the foreseeable future. The School therefore continues to adopt the going concern basis in preparing its financial statements.

Basis of consolidation

The consolidated financial statements include the School and all its subsidiaries for the financial year to 31 July 2018. 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.

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 Comprehensive Income and Expenditure over the period in which students register. 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 of 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 the participation in the University of London International Programme is recognised on an accruals basis.

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

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

Grant funding

Grant funding including HEFCE/OfS/UKRI 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:

Restricted donations – the donor has specified that the donation must be used for a particular objective.

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.

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.

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 Statement of Comprehensive Income and Expenditure.

Capital grants

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

Expense recognition

Expenditure incurred relates to the receipt of goods and services which are recognised when incurred. A provision is made for debts that are not likely to be collected completely. This provision is calculated based on age, value, jurisdiction of the debtor and our experience from previous years' of the collectability of differing types of debt.

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).

USS:

With effect from 1 October 2016, USS changed from a defined benefit only pension scheme to a hybrid pension scheme, providing defined benefits (for all members), as well as defined contribution benefits. The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the assets are not attributed to individual institutions and a scheme-wide contribution rate is set. The School is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. As required by Section 28 of FRS 102 "Employee benefits", the School therefore accounts for the scheme as if it were a wholly defined contribution scheme. As a result, the amount charged to the Statement of Comprehensive Income and Expenditure represents the contributions payable to the scheme. Since the School has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit, it recognises a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and therefore an expense is recognised.

SAUL:

SAUL is a defined benefit scheme which is independently managed. It is not possible to identify an individual Employer's share of the underlying assets and liabilities of SAUL. The School accounts for its participation as if it were a defined contribution scheme and pension costs are based on the amounts actually paid (i.e. cash amounts) in accordance with paragraphs 28.11 of FRS 102. The School is not expected to be liable to SAUL for any other current participating employer's obligations under the Rules of SAUL, but in the event of an insolvency event of any participating employer within SAUL, an amount of any pension shortfall (which cannot otherwise be recovered) in respect of that employer, may be spread across the remaining participating employers and reflected in the next actuarial valuation. Each fund is valued every three years by professionally qualified independent actuaries. A liability for each scheme is recorded within provisions for any contractual commitment to fund past deficits within the schemes.

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.

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 to 20 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 £30k 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.

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.

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.

Foreign currency

Transactions in foreign currencies are translated to Sterling 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 Sterling 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.

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 subsidiary and participating undertakings are carried at cost less impairment in the School's financial statements.

Stocks

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

Cash and cash equivalents

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.

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 asset arises where an event has taken place that gives the School a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly with the control of the School. 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 assets and liabilities are not recognised in the Balance Sheet but are disclosed in note 25.

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 Comprehensive Income and Expenditure.

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.

Loans and derivatives

Loans are liabilities with fixed or determinable payments and are held at book cost. Derivatives are held on the Balance Sheet at fair value with movements in fair value recorded in the Statement of Comprehensive Income and Expenditure.

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 schemes

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. During 2014-15 and 2015-16, the trustees of both pension schemes have agreed a recovery plan to fund past service deficits. Following the 2017 valuation of USS, interim arrangements during ongoing consultations do not contain any change in the deficit funding levels and so the provision is calculated on the current 18 per cent employer contribution which includes 2.1 per cent deficit contributions. 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.

Heritage assets

The School has manuscripts of historic value stored in the Library archive and various works of art. These assets are not included within tangible fixed assets and no value is ascribed to them as it is not practicable to determine their market value. They are not held with the intention to sell.

Consolidated Statement of Comprehensive Income and Expenditure

Company registration no 70527
Year ended 31 July 2018

	Notes	Group 2017-18 Total £'000	Group 2016-17 Total £'000	School 2017-18 Total £'000	School 2016-17 Total £'000
INCOME					
Tuition fees and education contracts	1	211,543	199,346	211,543	199,346
Funding body grants	2	25,311	26,276	25,311	26,276
Research grants and contracts	3	32,903	32,113	31,579	31,458
Other income	4	77,309	80,475	72,458	75,412
Investment income	5	4,451	5,372	4,458	5,381
Total income before endowments and donations		351,517	343,582	345,349	337,873
Donations and endowments	6	8,920	9,489	8,920	9,489
Total income		360,437	353,071	354,269	347,362
EXPENDITURE					
Staff costs	7, 8	188,004	174,285	185,073	171,277
Other operating expenses		120,553	121,631	117,370	118,948
Depreciation	10, 11	12,915	12,859	12,809	12,779
Interest and other finance costs	9	8,767	8,852	8,767	8,852
Total expenditure	8	330,239	317,627	324,019	311,856
Surplus before other gains		30,198	35,444	30,250	35,506
Gain on investments	12	10,224	18,247	10,224	18,247
Change in fair value of hedging financial instruments	17	3,921	7,235	3,921	7,235
Surplus before tax		44,343	60,926	44,395	60,988
Taxation		–	–	–	–
Surplus for the year / Total comprehensive income for the year		44,343	60,926	44,395	60,988
Represented by:					
Endowment comprehensive income for the year	19	8,908	13,483	8,908	13,483
Restricted comprehensive income for the year	20	2,052	1,079	2,052	1,079
Unrestricted comprehensive income for the year		33,383	46,364	33,435	46,426
		44,343	60,926	44,395	60,988

All items of income and expenditure relate to continuing activities.

Consolidated and School Balance Sheet

At 31 July 2018

	Notes	Group 2018 £'000	Group 2017 £'000	School 2018 £'000	School 2017 £'000
Non-current assets					
Intangible assets	10	1,338	1,122	1,340	1,072
Fixed assets	11	551,649	458,205	551,175	457,688
Investments	12	227,056	270,472	227,206	270,622
Investment in joint venture	13	–	1	–	–
		780,043	729,800	779,721	729,382
Current assets					
Stock	14	109	111	109	111
Trade and other receivables	15	31,193	28,084	32,804	29,636
Cash and cash equivalents	21	107,864	80,151	104,264	77,475
		139,166	108,346	137,177	107,222
Less Creditors: amounts falling due within one year	16, 17	(120,581)	(107,292)	(118,231)	(105,763)
Net current assets		18,585	1,054	18,946	1,459
Total assets less current liabilities		798,628	730,854	798,667	730,841
Creditors: amounts falling due after more than one year	16, 17	(212,893)	(187,123)	(212,893)	(187,123)
Pension provisions	18	(31,369)	(33,708)	(31,369)	(33,708)
Total net assets		**554,366**	**510,023**	**554,405**	**510,010**
Restricted reserves					
Income and expenditure reserve-endowment reserves	19	141,632	132,724	141,632	132,724
Income and expenditure reserve-restricted reserves	20	4,724	2,672	4,724	2,672
Unrestricted reserves					
Income and expenditure reserve-unrestricted		408,010	374,627	408,049	374,614
Total reserves		**554,366**	**510,023**	**554,405**	**510,010**

The financial statements were approved by Council on 20 November 2018 and were signed on its behalf on that date by:

Dame Shirley Pearce
Chair of Court and Council

Dame Minouche Shafik
Director

Consolidated and School Statement of Changes in Reserves

Group	Income and expenditure account			
	Endowment £'000	Restricted £'000	Unrestricted £'000	Total £'000
Balance at 1 August 2017	**132,724**	**2,672**	**374,627**	**510,023**
Surplus from the income and expenditure statement	8,908	2,052	29,462	40,422
Other comprehensive income	–	–	3,921	3,921
Total comprehensive income for the year	8,908	2,052	33,383	44,343
Balance at 31 July 2018	**141,632**	**4,724**	**408,010**	**554,366**

School	Income and expenditure account			
	Endowment £'000	Restricted £'000	Unrestricted £'000	Total £'000
Balance at 1 August 2017	**132,724**	**2,672**	**374,614**	**510,010**
Surplus from the income and expenditure statement	8,908	2,052	29,514	40,474
Other comprehensive income	–	–	3,921	3,921
Total comprehensive income for the year	8,908	2,052	33,435	44,395
Balance at 31 July 2018	**141,632**	**4,724**	**408,049**	**554,405**

Consolidated Cash Flow Statement

Year ended 31 July 2018

	Notes	Group 2018 £'000	Group 2017 £'000
Cash flow from operating activities			
Surplus for the year		44,343	60,926
Adjustment for non-cash items			
Depreciation		12,915	12,859
Amortisation of premium on bonds	12	1,365	3,100
Gain on investments	12	(10,224)	(18,247)
Change in fair value of hedging financial instruments	17	(3,921)	(7,235)
Decrease in stock	14	2	7
(Increase) in debtors	15	(3,109)	(7,819)
(Decrease)/Increase in creditors	16	(10,353)	17,195
(Decrease) in pension provision	18	(2,339)	(5,094)
Decrease in net assets in joint venture	13	1	20
Adjustment for investing or financing activities			
Investment income	5	(4,451)	(5,372)
Interest payable	9	8,262	8,271
Endowment income	6	(3,828)	(4,855)
Loss on the sale of tangible fixed assets		–	12
Capital grant income	2	(1,551)	(1,477)
Net cash inflow from operating activities		**27,112**	**52,291**
Cash flows from investing activities			
Capital grants received and spent		1,551	1,477
Capital grants received and deferred		23,195	–
Disposal of non-current asset investments		166,333	118,591
Investment income	5	4,451	5,372
Payments made to acquire fixed assets	11	(103,986)	(32,064)
Payments made to acquire intangible assets	10	(652)	(182)
New non-current asset investments	12	(113,616)	(125,650)
Other investment cash movement	12	(441)	4,741
		(23,165)	(27,715)
Cash flows from financing activities			
Interest paid	9	(8,262)	(8,271)
Endowment cash received	6	3,828	4,855
Loan drawn down		30,000	–
Repayments of amounts borrowed		(1,800)	(1,800)
		23,766	(5,216)
Increase in cash and cash equivalents in the year		**27,713**	**19,360**
Cash and cash equivalents at beginning of the year	21	80,151	60,791
Cash and cash equivalents at end of the year	21	107,864	80,151

Notes to the Financial Statements

Year ended 31 July 2018

1 TUITION FEES AND EDUCATION CONTRACTS	**Group 2017-18 £'000**	**Group 2016-17 £'000**	**School 2017-18 £'000**	**School 2016-17 £'000**
Tuition fees:				
Home/EU students	61,789	59,844	61,789	59,844
Overseas students	112,134	106,204	112,134	106,204
Short courses	37,158	33,177	37,158	33,177
Examination and other fees	462	121	462	121
	211,543	199,346	211,543	199,346

2 FUNDING BODY GRANTS	**Group 2017-18 £'000**	**Group 2016-17 £'000**	**School 2017-18 £'000**	**School 2016-17 £'000**
Block recurrent	20,531	20,563	20,531	20,563
Capital grant	1,551	1,477	1,551	1,477
Higher Education Innovation Fund	1,623	3,128	1,623	3,128
Other specific grants	1,606	1,108	1,606	1,108
	25,311	26,276	25,311	26,276

3 RESEARCH GRANTS AND CONTRACTS	**Group 2017-18 £'000**	**Group 2016-17 £'000**	**School 2017-18 £'000**	**School 2016-17 £'000**
Research councils	9,648	8,654	9,648	8,654
Government departments	6,128	7,129	6,122	6,971
Charities	1,639	1,580	1,608	1,552
European Commission and other EU based funders	9,773	8,573	9,056	8,327
Other outside bodies	5,715	6,177	5,145	5,954
	32,903	32,113	31,579	31,458

4 OTHER INCOME	**Group 2017-18 £'000**	**Group 2016-17 £'000**	**School 2017-18 £'000**	**School 2016-17 £'000**
Residences and catering	39,630	37,639	34,060	32,218
Academic department income attributable to other activities	2,282	1,782	2,282	1,782
University of London International Programmes (ULIP)	10,264	10,106	10,264	10,106
Consultancy services and executive education (LSE Enterprise Limited)	7,988	9,297	–	–
Other services rendered (including the International Growth Centre)	12,725	14,865	21,270	24,481
VAT recovery	1,273	1,620	1,273	1,620
Staff and student facilities	889	688	889	688
Sundry	2,258	4,478	2,420	4,517
	77,309	80,475	72,458	75,412

Notes to the Financial Statements continued...

5 INVESTMENT INCOME	Notes	Group 2017-18 £'000	Group 2016-17 £'000	School 2017-18 £'000	School 2016-17 £'000
Investment income on endowments	19	2,873	2,280	2,873	2,280
Other investment income		1,578	3,092	1,585	3,101
		4,451	5,372	4,458	5,381

6 DONATIONS AND ENDOWMENTS		Group 2017-18 £'000	Group 2016-17 £'000	School 2017-18 £'000	School 2016-17 £'000
New endowments	19	3,828	4,854	3,828	4,854
Donations with restrictions	20	3,205	2,249	3,205	2,249
Donations with performance related conditions		13	70	13	70
Other donations		1,874	2,316	1,874	2,316
		8,920	9,489	8,920	9,489

7 STAFF COSTS		Group 2017-18 £'000	Group 2016-17 £'000	School 2017-18 £'000	School 2016-17 £'000
Total staff costs for the year were:					
Wages and salaries		153,647	145,217	150,977	142,789
Social Security costs		16,025	14,618	15,808	14,374
Other pension costs		21,100	20,113	21,055	19,777
		190,772	179,948	187,840	176,940
USS pension provision utilised in year	18	(2,010)	(1,992)	(1,761)	(1,992)
SAUL pension provision utilised in year	18	(441)	(429)	(441)	(429)
Movement on USS pension provision	18	(317)	(2,908)	(565)	(2,908)
Movement on SAUL pension provision	18	–	(334)	–	(334)
		188,004	174,285	185,073	171,277

The School acts as an agent for LSE Lets Limited. In the current year, the School made a management charge of £7,452k (2016-17: £6,986k) to LSE Lets Limited. This includes staff costs.

The average monthly number of persons employed by the group during the year expressed as full-time equivalent was:	Group 2017-18 Number	Group 2016-17 Number
Research and Teaching	1,473	1,427
Operational Services	1,143	1,065
Subsidiary	29	27
	2,645	2,519

7 STAFF COSTS CONTINUED... DIRECTORS' REMUNERATION	2017-18 £'000	2016-17 £'000
Emoluments (2017-18 – 6 Directors; 2016-17 – 7 directors)	811	731

All directors making pension contributions joined the pension salary sacrifice scheme.

Included above are the emoluments of those who served as Director and Interim Director of the School during the year:

	2017-18 £'000	2016-17 £'000
Dame Minouche Shafik – Director from 1 September 2017		
Basic salary	321	–
Pension Contributions	58	–
Other taxable benefits:		
Relocation costs	7	–
Accommodation expenses	11	–
Non taxable benefits:		
Relocation costs	8	–
	405	–

Professor Julia Black – Interim Director, 1 September 2016 to 31 August 2017		
Basic salary	23	255
Bonus	20	–
Payments in lieu of pension contributions	1	4
Pension contributions	2	19
	46	278

Professor Craig Calhoun – Director until 31 August 2016		
Basic Salary	–	26
Pension contributions	–	5
	–	31

Salaries are stated gross, before deductions of pension contributions made under the School's salary sacrifice.

The School provides accommodation for the Director and the property is also used for School functions and events. The property is funded from a historic legacy gifted for this purpose so does not represent a cost to the School's general funds. If it were let on the open market it is estimated that it could generate an annual income of £54k net of costs.

7 STAFF COSTS CONTINUED...
DIRECTORS' REMUNERATION CONTINUED

LSE is one of the foremost universities in the world specialising across the full range of social, political and economic sciences. The School has an outstanding international reputation and welcomes a significant number of students and faculty from overseas. The School's programme of public engagement positions it at the forefront of global policy debate as a highly influential voice addressing a range of major social challenges. A member of the Russell Group, LSE has the highest proportion of world-leading research of any UK university, based on the 2014 Research Excellence Framework, and has just launched a major initiative aimed at enhancing its reputation as a centre of teaching excellence.

Dame Minouche Shafik
LSE Director Dame Minouche Shafik was previously Deputy Governor of the Bank of England and has held senior leadership roles at the World Bank, the IMF in Washington DC, and in the Department for International Development within the UK Civil Service. Significant challenges facing LSE and it's Director include a rapidly changing UK and international higher education environment (including extensive regulatory changes), a need for significant change management and upgrade of management systems, increased competition for recruitment, and the need to access more diverse funding streams. This complex set of responsibilities calls for a particular combination of qualities.

The post-holder must understand the complexities of the sector, have high-level change management experience, and a broad understanding of the global economic, technological, and political landscape to which LSE contributes.

The profile of the Director and the internationally competitive leadership position that the School plays in the social sciences were factors in determining her remuneration upon appointment. In addition, the role is based in central London, and reflects the additional cost of living and its implications for competitive pay. The Director's pay ratio, based on basic pay as a ratio of the median basic salary of all staff, was 9.4. The total remuneration ratio (including accommodation) was 10.5. Basic salary and total remuneration are based on full-time equivalent pay for permanent and contract staff employed during 2017-18.

The Director's performance objectives for the year are set by the Chair of Council on the advice of the Remuneration Committee at the beginning of the academic year. The Chair of Council undertakes an annual performance review of the Director against the objectives, the results of which are reported to the Remuneration Committee and the Committee uses this information as the basis for assessing progress against agreed outcomes at the end of the year.

Professor Julia Black
Professor Julia Black served as Interim Director of LSE from September 2016 to August 2017. Prior to this she served as the School's Pro-Director for Research, a position held concurrently whilst serving as Interim Director, and was a Professor of Law at LSE.

Recent senior roles outside LSE have included a British Academy/ Leverhulme Trust Senior Research Fellow, a Visiting Fellow at the University of Sydney and All Souls College, Oxford, and the Sir Frank Holmes Visiting Professor in Public Policy at the University of Victoria, Wellington. She has written extensively on regulatory issues and has advised policy makers, consumer bodies and regulators on issues of institutional design and regulatory policy. She was elected a Fellow of the British Academy in 2015 and was appointed to the Board of UK Research and Innovation in 2017.

The pressing operational need for the School to make an appropriate interim appointment to its most senior role, as well as Professor Black's relevant experience and profile, were factors in determining her remuneration as Interim Director. The Interim Director's pay ratio, based on basic pay as a ratio of the median basic salary of all staff, was 7.5. The total remuneration ratio was 6.9. Basic salary and total remuneration are based on full-time equivalent pay for permanent and contract staff employed during 2017-18.

Notes to the Financial Statements continued...

7 STAFF COSTS CONTINUED...

The number of staff employed by the School during the year whose basic salary is above £100k	2017-18	2016-17
£100,000 – £104,999	27	27
£105,000 – £109,999	35	33
£110,000 – £114,999	26	14
£115,000 – £119,999	21	16
£120,000 – £124,999	14	16
£125,000 – £129,999	13	6
£130,000 – £134,999	7	3
£135,000 – £139,999	7	9
£140,000 – £149,999	9	7
£145,000 – £149,999	4	3
£150,000 – £155,999	2	4
£155,000 – £159,999	4	3
£160,000 – £164,999	2	1
£165,000 – £169,999	1	2
£170,000 – £174,999	2	–
£175,000 – £179,999	2	3
£180,000 – £184,999	1	1
£185,000 – £189,999	2	2
£190,000 – £194,999	1	1
£195,000 – £199,999	3	1
£210,000 – £214,999	1	–
£250,000 – £254,999	–	1
£255,000 – £259,999	2	1
	186	**154**

In accordance with the OfS Accounts Direction, this data does not include any staff who joined or left during the year.

7 STAFF COSTS CONTINUED...

Key management personnel

Key management personnel (excluding the Director) are those persons having authority and responsibility for planning, directing and controlling the activities of the School and are members of the School Management Committee (SMC). Staff costs include compensation paid to key management personnel.

Key personnel (2017-18: 6, 2016-7: 5) are:
Pro-directors
Chief Financial Officer
Chief Operating Officer
School Secretary

	Group 2017-18 £'000	Group 2016-17 £'000
Key management personnel compensation	1,078	872

Payment of compensation for loss of office totalling £1,097k was made to 63 staff in 2017-18 (2016-17: 23 staff, £758k)

8 ANALYSIS OF TOTAL EXPENDITURE BY ACTIVITY	Group 2017-18 Staff costs £'000	Group 2017-18 Non pay costs £'000	Group 2017-18 Total £'000	Group 2016-17 Total £'000	School 2017-18 Total £'000	School 2016-17 Total £'000
Academic departments and other academic activities	118,018	16,321	134,339	124,096	132,655	122,353
Library and IT services	11,924	10,131	22,055	23,166	22,055	23,166
Research grants and contracts	14,732	6,280	21,012	21,403	21,012	21,403
Scholarships	–	18,844	18,844	18,949	18,844	18,949
General education expenditure	8,784	2,746	11,530	10,155	11,529	10,155
Estates	7,543	19,537	27,080	27,146	27,080	27,135
Administration and central services	13,105	4,867	17,972	17,099	17,950	17,092
Staff and student facilities	3,957	3,546	7,503	7,253	7,503	7,253
Residences and catering	6,376	24,803	31,179	30,761	33,421	32,821
Executive education, consultancy and other services	3,445	11,839	15,284	16,166	8,687	10,176
USS pension provisions utilised in year	(2,010)	–	(2,010)	(1,992)	(2,010)	(1,992)
SAUL pension provisions utilised in year	(441)	–	(441)	(429)	(441)	(429)
Movement on USS provision	(317)	–	(317)	(2,908)	(317)	(2,908)
Movement on SAUL provision	–	–	–	(334)	–	(334)
Miscellaneous	2,888	1,639	4,527	5,385	4,475	5,385
Depreciation						
– Estates and IT	–	11,850	11,850	11,889	11,850	11,889
– Residences and catering	–	971	971	902	959	890
– Consultancy services and executive education	–	94	94	68	–	–
Interest and other finance costs	–	8,767	8,767	8,852	8,767	8,852
	188,004	142,235	330,239	317,627	324,019	311,856

Other operating expenses include:				
Fees payable to the School's auditors for the audit for the financial statements	64	69	64	69
Fees payable to the School's auditors for other services:				
Audit of the financial statements of the School's subsidiaries	10	7	–	–
Other services relating to taxation	–	–	–	–
All other services	5	6	5	6
	79	82	69	75
Operating lease rentals				
Land and buildings	9,844	9,248	9,844	9,248
Other	741	938	741	938
	10,585	10,186	10,585	10,186

Notes to the Financial Statements continued...

9 INTEREST AND OTHER FINANCE COSTS		Group 2017-18 £'000	Group 2016-17 £'000	School 2017-18 £'000	School 2016-17 £'000
Loan interest		8,262	8,271	8,262	8,271
Net charge on pension scheme	18	505	581	505	581
		8,767	8,852	8,767	8,852

10 INTANGIBLE ASSETS	Group £'000	School £'000
Software		
As at 1 August 2017	1,122	1,072
Additions in the year	652	652
Amortisation charge for the year	(436)	(384)
As at 31 July 2018	1,338	1,340

11 TANGIBLE FIXED ASSETS	Land and Buildings Freehold £'000	Land and Buildings Long Leasehold £'000	Equipment £'000	Assets Under Construction £'000	Total £'000
GROUP					
Cost					
As at 1 August 2017	453,204	30,205	16,871	52,774	553,054
Additions in year	53,115	(161)	1,358	51,611	105,923
Disposals in year	–	–	(327)	–	(327)
As at 31 July 2018	506,319	30,044	17,902	104,385	658,650
Accumulated depreciation					
As at 1 August 2017	71,868	9,114	13,867	–	94,849
Charge for year	9,537	1,129	1,813	–	12,479
Disposals in year	–	–	(327)	–	(327)
As at 31 July 2018	81,405	10,243	15,353	–	107,001
Net book value					
As at 1 August 2017	381,336	21,091	3,004	52,774	458,205
As at 31 July 2018	424,914	19,801	2,549	104,385	551,649
SCHOOL					
Cost					
As at 1 August 2017	453,204	29,540	16,745	52,774	552,263
Additions in year	53,115	(166)	1,352	51,611	105,912
Disposals in year	–	–	(320)	–	(320)
As at 31 July 2018	506,319	29,374	17,777	104,385	657,855
Accumulated depreciation					
As at 1 August 2017	71,869	8,898	13,808	–	94,575
Charge for year	9,537	1,112	1,776	–	12,425
Disposals in year	–	–	(320)	–	(320)
As at 31 July 2018	81,406	10,010	15,264	–	106,680
Net book value					
As at 1 August 2017	381,335	20,642	2,937	52,774	457,688
As at 31 July 2018	424,913	19,364	2,513	104,385	551,175

Group and School

Fixed assets acquired by the School are funded by retained surplus, loans, HEFCE/OfS 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 OfS Exchequer Interest amounts to £16.3 million at 31 July 2018. 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 value is ascribed to them. 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. In 2018-19, the Library's contents and works of art are insured for £119.0 million and £1.6 million respectively.

12 NON-CURRENT INVESTMENTS	Other fixed assets investments £'000	Subsidiary Undertakings £'000	Participating Undertakings £'000	Total £'000
Group				
As at 1 August 2017	270,472	–	–	270,472
Additions	111,666	–	1,950	113,616
Disposals	(166,289)	–	–	(166,289)
Increase in market value of investments	12,131	–	–	12,131
Increase in investment cash	441	–	–	441
Provision for impairment	–	–	(1,950)	(1,950)
Amortisation of premium on bonds	(1,365)	–	–	(1,365)
As at 31 July 2018	227,056	–	–	227,056
School	**£'000**	**£'000**	**£'000**	**£'000**
As at 1 August 2017	270,472	150	–	270,622
Additions	111,666	–	1,950	113,616
Disposals	(166,289)	–	–	(166,289)
Increase in market value of investments	12,131	–	–	12,131
Decrease in investment cash	441	–	–	441
Provision for impairment	–	–	(1,950)	(1,950)
Amortisation of premium on bonds	(1,365)	–	–	(1,365)
As at 31 July 2018	227,056	150	–	227,206

Gains on investments **Group and School**	**2018** **£'000**	**2017** **£'000**
Realised gains	43	2,369
Unrealised gains	12,131	15,878
Provision for impairment	(1,950)	–
	10,224	18,247

Other fixed assets investments consist of: **Group and School**	**2018** **£'000**	**2017** **£'000**
Analysis of closing balance		
UK equities	15,379	30,422
Overseas equities	130,524	99,066
UK corporate bonds	47,693	108,378
Properties	21,731	16,064
Money market funds	9,080	15,710
Cash on account	2,615	798
Share of freehold property	34	34
	227,056	270,472
Made up of portfolios:		
Capital projects	39,239	98,313
Strategic investment fund	18,835	17,090
Growth	129,095	109,771
Gift matching	14,782	21,734
FER	25,071	23,530
Share of freehold property	34	34
	227,056	270,472

Included in investments are £39.2m of corporate bonds at amortised cost. At 31 July 2018, the market value was £39.2m.

Notes to the Financial Statements continued...

Subsidiary undertakings	Group 2018 £'000	Group 2017 £'000	School 2018 £'000	School 2017 £'000
At cost	–	–	150	150

Name	Nature of Business	Country of registration	Shareholding £1 Ordinary Shares	Number of Shares
LSE Enterprise Limited	Consultancy	England	100%	150,000
LSE LETS Limited	Vacation Lettings	England	100%	2

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.

Participating undertakings

The School has invested in commercialisation opportunity in order to generate revenues to contribute to the sustainability of its core research, but recognises the uncertain nature of direct financial returns from this type of activity at least in the short term. A prudent approach has been adopted and thus a provision equivalent to the full value of the investment has been made.

13 INVESTMENT IN JOINT VENTURE

The School has 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. The total cash held by the School as an administrator as at 31 July 2018 was $12.7million.

The joint venture investment is disclosed in the financial statements as follows:

	Group 2018 £'000	Group 2017 £'000
Share of income	2,580	2,899
Share of operating profit	1,041	1,557
Share of gross assets	5,592	3,634
Share of gross liabilities	(5,592)	(3,633)
Share of reserves	–	1

14 STOCK	Group 2018 £'000	Group 2017 £'000	School 2018 £'000	School 2017 £'000
Food and beverages	91	96	91	96
Consumables	18	15	18	15
	109	111	109	111

15 TRADE AND OTHER RECEIVABLES	Notes	Group 2018 £'000	Group 2017 £'000	School 2018 £'000	School 2017 £'000
Amounts falling due within one year:					
Trade receivables		12,220	10,152	10,254	8,388
Research grants receivables		4,444	4,635	4,444	4,635
Amounts due from group undertakings		–	–	4,587	4,146
Staff loans for housing		26	34	26	34
Other receivables		8,783	8,849	8,756	8,769
Prepayments and accrued income		5,487	4,156	4,504	3,406
		30,960	27,826	32,571	29,378
Amounts falling due after more than one year:					
Staff loans for housing		233	258	233	258
		233	258	233	258
		31,193	28,084	32,804	29,636

16 CREDITORS		Group 2018 £'000	Group 2017 £'000	School 2018 £'000	School 2017 £'000
Amounts falling due within one year:					
Bank loans	17	4,657	1,800	4,657	1,800
Trade payables		4,867	8,423	4,867	8,312
Research creditors and prepayments		17,498	18,260	17,498	18,260
Amounts due to group undertakings		–	–	845	919
Taxation and social security		4,655	4,997	4,659	4,927
Other creditors		10,418	9,788	7,292	7,808
Accruals and deferred income		78,486	64,024	78,413	63,737
		120,581	107,292	118,231	105,763
Amounts falling due after one year:					
Bank loans and loan notes	17	169,243	143,900	169,243	143,900
Derivatives	17	25,469	29,390	25,469	29,390
Other creditors		5,845	5,428	5,845	5,428
Deferred Income		12,030	8,045	12,030	8,045
Deferred VAT payments		306	360	306	360
		212,893	187,123	212,893	187,123

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 2018 £'000	Group 2017 £'000	School 2018 £'000	School 2017 £'000
Donations	12,802	8,206	12,802	8,206
Research grants received on account	17,557	18,260	17,557	18,260
Grant income	25,162	382	25,162	382
	55,521	26,848	55,521	26,848

Other creditors – falling due after one year

This includes monies held in trust. The School is entitled to the income, which is used to advance education by supporting an academic programme.

Notes to the Financial Statements continued...

17 BORROWINGS	Group 2018 £'000	Group 2017 £'000	School 2018 £'000	School 2017 £'000
Bank loans and loan notes are repayable as follows:				
In one year or less	4,657	1,800	4,657	1,800
Between one and two years	4,657	1,800	4,657	1,800
Between two and five years	13,971	5,400	13,971	5,400
In five years or more	150,615	136,700	150,615	136,700
	173,900	145,700	173,900	145,700

The School has arranged a £75.0 million amortising loan repayable by December 2028 secured over three properties. £48.9 million was outstanding at 31 July 2018. The School has entered into interest rate swap agreements (derivatives) with a nominal value totalling £65.0 million. 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 market value at the balance sheet date.

Lender	£m	Maturity	Interest Rate%	Borrower
Bank loan	48.9	22 December 2028	Libor + 0.25%	School
Private placement	30.0	27 November 2028	3.73% to 4.15%	School
Private placement	25.0	27 November 2043		School
Private placement	30.0	27 November 2043		School
Private placement	40.0	27 November 2053		School
Total	173.9			

	Notes	Group 2018 £'000	Group 2017 £'000	School 2018 £'000	School 2017 £'000
Derivatives					
Fair value at 1 August		29,390	36,625	29,390	36,625
Change in fair value		(3,921)	(7,235)	(3,921)	(7,235)
Fair value at 31 July		25,469	29,390	25,469	29,390

18 PENSION PROVISIONS	Notes	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
Group and School					
As at 1 August 2017		33,186	434	88	33,708
Utilised in year	7	(2,010)	(441)	–	(2,451)
Net charge on pension scheme	9	498	7	–	505
Reductions in year	7	(317)	–	(76)	(393)
As at 31 July 2018		31,357	–	12	31,369

Obligation to fund deficit on USS pension

The obligation to fund the past deficit on the University's Superannuation Scheme (USS) arises from the contractual obligation with the pension scheme for total payments relating to benefits arising from past performance. Management have used the following estimates of the growth in employee numbers, salary payments and applied a 2.14 per cent discount factor in establishing a present value for these obligations:

	Group and School
Inflation	4.0% per annum
Staff numbers	0% – 1.5% over the period

Following failure to agree changes to USS contributions and benefits, the Scheme Trustee invoked "Rule 76.4". As a consequence, unless changes in contributions and benefits can be agreed contributions will increase to 37.4 per cent of pay phased in from April 2019. The estimated impact on the USS pension provision is an increase to £87.1 million.

Pension enhancement on termination

Pension enhancements are payable to staff who have retired under the previous superannuation scheme for academic and related staff, FSSU.

19 ENDOWMENT RESERVES	Expendable £'000	Restricted permanent £'000	2018 Total £'000	2017 Total £'000
Group and School				
Capital value	49,296	80,057	129,353	117,484
Accumulated income	2,144	1,227	3,371	1,757
At 1 August 2017/1 August 2016	51,440	81,284	132,724	119,241
New endowments	2,206	1,622	3,828	4,854
Investment income	1,363	1,510	2,873	2,280
Expenditure for the year	(5,645)	(1,810)	(7,455)	(6,737)
Increase in market value of investments	4,112	5,550	9,662	13,086
Total endowment comprehensive income for the year	2,036	6,872	8,908	13,483
At 31 July 2018/31 July 2017	53,476	88,156	141,632	132,724
Represented by:				
Capital value	52,201	87,654	139,855	129,353
Accumulated income	1,275	502	1,777	3,371
	53,476	88,156	141,632	132,724
Analysis by type of purpose:				
Named chairs and lectureships	6,308	29,318	35,626	31,855
Scholarships and bursaries	15,044	20,086	35,130	31,695
Research support	6,860	37,576	44,436	41,139
Library	187	1,176	1,363	1,546
Widening Participation	590	–	590	677
Support for academic activities	20,713	–	20,713	22,860
General	3,774	–	3,774	2,952
	53,476	88,156	141,632	132,724
Analysis by asset				
Non current asset investments	52,831	86,235	139,066	128,383
Cash and cash equivalents	645	492	1,137	2,912
Receivables	–	1,429	1,429	1,429
	53,476	88,156	141,632	132,724

Notes to the Financial Statements continued...

20 RESTRICTED RESERVES	Donations 2018 Total £'000	 2017 Total £'000
Group and School		
Reserves with restrictions are as follows:		
At 1 August 2017/1 August 2016	2,672	1,593
New donations	3,205	2,249
Gain on investments	134	–
Investment income	32	–
Expenditure for the year	(1,319)	(1,170)
Total restricted comprehensive income for the year	2,052	1,079
At 31 July 2018 / 31 July 2017	4,724	2,672

	2018 Total £'000	2017 Total £'000
Analysis of other restricted funds/donations by type of purpose:		
Research support	706	171
Support for academic activities	3,779	2,501
Support for facilities	79	–
Capital development	100	–
Student support	60	–
	4,724	2,672

21 CASH AND CASH EQUIVALENTS	At 1 August 2017 £'000	Cash flows £'000	At 31 July 2018 £'000
Group			
Cash and cash equivalents	16,863	22,976	39,839
Bank deposits	63,288	4,737	68,025
	80,151	27,713	107,864

22 PENSION COMMITMENTS

The School participates in the Universities Superannuation Scheme (USS) and Superannuation Arrangements of the University of London (SAUL). USS is a combination of a defined benefit and defined contribution scheme. SAUL is a defined benefit scheme.

	USS		SAUL	
Pension Scheme	**2018**	**2017**	**2018**	**2017**
Active members	1,588	1,525	1,039	835
Contribution rate made by School	18%	18%	16%	16%
Contribution made (in £'000)	17,225	16,550	3,834	3,563

(i) USS

General description of the scheme

Pension benefits accrued within USS currently build up on a Final Salary basis, a Career Average Revalued Earnings ("CARE") basis and for contributions on salary in excess of £55k, on a defined contribution basis. Staff have the option to make additional contributions to the defined contribution element of the scheme, and the School will provide a match up to 1 per cent per annum.

The latest available full actuarial valuation of the scheme was at 31 March 2014 ("the valuation date"), which was carried out using the projected unit method. The valuation as at 31 March 2017 is underway, but not yet completed.

Since the institution cannot identify its share of scheme assets and liabilities, the following disclosures reflect those relevant for the scheme as a whole.

The 2014 valuation was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. These figures will be revised once the 2017 Scheme Valuation is complete.

Defined benefit liability numbers for the scheme have been produced using the following assumptions:

	2018	2017
Discount rate	2.64%	2.57%
Pensionable salary growth	n/a	n/a
Price inflation (CPI)	2.02%	2.41%

The main demographic assumption used relates to mortality assumptions. These assumptions have been updated for the 31 March 2018 accounting position, based on updated analysis of the Scheme's experience carried out as part of the 2017 actuarial valuation. The mortality assumptions used in these figures are as follows:

	2018	2017
Mortality base table	Pre-retirement: 71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females. Post retirement: 96.5% of SAPS S1NMA "light" for males and 101.3% of RFV00 for females.	98% of SAPS S1NA "light" YOB unadjusted for males. 99% of SAPS S1NA "light" YOB with a -1 year adjustment for females.
Future improvements to mortality	CMI_2016 with a smoothing parameter of 8.5 and a long term improvement rate of 1.8% p.a. for males and 1.6% p.a. for females.	CMI_2014 with a long term rate of 1.5% p.a.

22 PENSION COMMITMENTS CONTINUED

The current life expectancies on retirement at age 65 are:

	2018	2017
Males currently aged 65 (years)	24.5	24.4
Females currently aged 65 (years)	26.0	26.6
Males currently aged 45 (years)	26.5	26.5
Females currently aged 45 (years)	27.8	29.0

	2018	2017
Scheme assets	£63.6bn	£60.0bn
Total scheme liabilities	£72.0bn	£77.5bn
FRS 102 total scheme deficit	£8.4bn	£17.5bn
FRS 102 total funding level	88%	77%

(ii) SAUL

General description of the pension scheme

The School participates in the Superannuation Arrangements of the University of London ("SAUL"), which is a centralised defined benefit scheme within the United Kingdom and is contracted-out of the Second State Pension (prior to April 2016).

SAUL is an independently-managed pension scheme for the non-academic staff of over 50 colleges and institutions with links to higher education.

The School is not expected to be liable to SAUL for any other current participating employer's obligations under the Rules of SAUL, but in the event of an insolvency of any participating employer within SAUL, an amount of any pension shortfall (which cannot otherwise be recovered) in respect of that employer, may be spread across the remaining participating employers and reflected in the next actuarial valuation.

Funding Policy

SAUL's statutory funding objective is to have sufficient and appropriate assets to meet the costs incurred by the Trustee in paying SAUL's benefits as they fall due (the "Technical Provisions"). The Trustee adopts assumptions which, taken as a whole, are intended to be sufficiently prudent for pensions and benefits already in payment to continue to be paid and for the commitments which arise from Members' accrued pension rights to be met.

The Technical Provisions assumptions include appropriate margins to allow for the possibility of events turning out worse than expected. However, the funding method and assumptions do not completely remove the risk that the Technical Provisions could be insufficient to provide benefits in the future.

A formal actuarial valuation of SAUL is carried out every three years by a professionally qualified and independent actuary. The last actuarial valuation was carried out with an effective date of 31 March 2017. Informal reviews of SAUL's position, reflecting changes in market conditions, cash flow information and new accrual of benefits, are carried out between formal valuations.

The funding principles were agreed in June 2018 and are due to be reviewed at SAUL's next formal valuation in 2020.

At the 31 March 2017 valuation SAUL was fully funded on its Technical Provisions basis so no deficit contributions were required. The Trustee and the Employers have agreed that the ongoing Employers' contributions will continue at a rate of 16 per cent of CARE Salaries.

22 PENSION COMMITMENTS CONTINUED

Accounting Policy

The School is a Participating Employer in SAUL. The actuarial valuation applies to SAUL as a whole and does not identify surpluses or deficits applicable to individual employers. As a whole, the market value of SAUL's assets was £3.2 billion representing 102 per cent of the liabilities for benefits accrued up to 31 March 2017.

It is not possible to identify an individual Employer's share of the underlying assets and liabilities of SAUL. The School accounts for its participation in SAUL as if it were a defined contribution scheme and pension costs are based on the amounts actually paid (ie, cash amounts) in accordance with paragraphs 28.11 of FRS 102.

As there was a Technical Provisions surplus at 31 March 2017 there is no defined benefit liability (ie, the present value of any deficit contributions due to SAUL) to be recognised by the School.

(iii) FSSU

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

23 CAPITAL AND OTHER COMMITMENTS	Group 2018 £'000	Group 2017 £'000	School 2018 £'000	School 2017 £'000
Provision has not been made for the following capital commitments at 31 July: Commitments contracted for:				
Capital development projects	52,153	74,163	52,153	74,163
Refurbishments	1,517	325	1,517	325
	53,670	74,488	53,670	74,488

24 LEASE OBLIGATIONS	Land and buildings £'000	Other leases £'000	Group 2018 £'000	Group 2017 £'000
Total rentals payable under operating leases:				
Payable during the year	9,844	741	10,585	10,186
Future minimum lease payments due:				
Within one year	10,080	337	10,417	9,906
Between two and five years	26,080	330	26,410	30,349
Five years or more	29,893	–	29,893	25,812
Total lease payments due	66,053	667	66,720	66,067

25 CONTINGENT ASSETS AND LIABILITIES

The School signed a significant gift agreement in 2014-15. At 31 July 2018, there was an outstanding balance of £12.0 million. An asset is not recognised in the Financial Statements for this possible asset because the existence of it is dependent upon the fulfilment of payments.

The School has entered into rental guarantees with Sanctuary Students and Urbanest UK Minories Limited. Between 2017-18 and 2040-41 the School has a financial commitment relating to 1,192 beds with a potential liability estimated at £13.5 million per year.

Notes to the Financial Statements continued...

26 RELATED PARTY TRANSACTIONS

The School has maintained a Register of Interests of all Council members. Written assurances have been obtained from all Council members in respect of themselves and their close family that for the year ended 31 July 2018, they have not unduly influenced any transaction between the School and a related party.

During the year ended 31 July 2018 LSE had transactions with several organisations which fall within the definition of related parties under FRS 102 Section 33 'Related Party Disclosures'. Due to the nature of School's operations and the composition of Council (being drawn from a range of public and private sector organisations), it is inevitable that transactions in the normal course of business will take place with entities in which members of Council (or indeed other key management personnel) may have an interest. All such transactions, including those identified below, are carried out on normal commercial terms and in accordance with the School's Financial Regulations and usual procurement procedures.

The School has taken advantage of the exemption within FRS 102 Section 33 and not disclosed transactions with wholly-owned subsidiaries.

Included in the financial statements are the following transactions between the School and related parties.

Year end 31 July 2018

Organisations with relationships with Council members and senior management	Income £	Expenditure/ Payments £	Balance due to/ (owed by) £
Bank of England	–	581	–
Centre for Cities	–	318,113	–
Church of England Pensions Board	20,000	–	–
Institute for Fiscal Studies	7,487	14,033	2,531
LSE Students' Union	1,327,482	2,739,205	603
OFSTED	–	220	–
Regional Studies Association	3,500	–	–
Russell Group of Universities	16,000	75,000	(4,668)
Siemens AG	295	–	–
Stanford University	1,500	68,898	–
The Modern Law Review Limited	19,554	–	–
Zinc Ventures Limited	–	1,949,894	–

The School's Council members are the trustees for charitable law purposes. During 2017-18, one Council member was reimbursed £2,320 for travel expenses in relation to their role as trustee (2016-17: £933 to one Council member). No payments were made to any trustee for serving as trustee.

The activities of the LSE Students' Union have not been consolidated as the School does not have signficant influence over its activities. The General Secretary of the Students' Union is a member of Council. During 2017-18, the Students' Union received financial support from the School. There were also transactions between the Students' Union and the School for services and goods provided by each party. The School has entered into rental agreements with the Students' Union for specific areas of the School, which it occupies.

The School conducted a review of linked charities in 2017-18 and found no associated entities falling within the definition set out under Section 28 of Schedule 3 of the Charities Act 2016.

27 FINANCIAL INSTRUMENTS – GROUP	Notes	Available for sale £'000	Held to maturity £'000	Total £'000	Fair Value £'000
Financial assets measured at fair value (as of 31 July 2018)					
Equity Securities	12	167,634	–	167,634	167,634
Corporate debt securities	12	8,453	–	8,453	8,453
Cash and cash equivalents	12	11,695	–	11,695	11,695
		187,782	–	187,782	187,782
Financial assets not measured at fair value (as of 31 July 2018)					
Corporate debt securities	12	–	39,240	39,240	39,240
Share of freehold property	12	34	–	34	Not available
		34	39,240	39,274	39,240
Financial liabilities measured at fair value (as of 31 July 2018)					
Interest rate swaps associated with bank loans	17	25,469	–	–	25,469

28 EVENTS AFTER THE REPORTING PERIOD

There were no post balance sheet events.

Notes to the Financial Statements continued...

29 STATEMENT OF COMPREHENSIVE RESTRICTED AND UNRESTRICTED INCOME AND EXPENDITURE	Notes	Group 2017-18 Unrestricted & designated £'000	Group 2017-18 Restricted £'000	Group 2017-18 Total £'000	Group 2016-17 Unrestricted & designated £'000	Group 2016-17 Restricted £'000	Group 2016-17 Total £'000
INCOME							
Tuition fees and education contracts	1	211,543	–	**211,543**	199,346	–	**199,346**
Funding body grants	2	25,311	–	**25,311**	26,276	–	**26,276**
Research grants and contracts	3	32,903	–	**32,903**	32,113	–	**32,113**
Other income	4	77,309	–	**77,309**	80,475	–	**80,475**
Investment income	5	1,546	2,905	**4,451**	3,092	2,280	**5,372**
Total income before donations and endowments		348,612	2,905	**351,517**	341,302	2,280	**343,582**
Donations and endowments	6	1,887	7,033	**8,920**	2,388	7,101	**9,489**
Total income		350,499	9,938	**360,437**	343,690	9,381	**353,071**
EXPENDITURE							
Staff costs	7	184,702	3,302	**188,004**	171,146	3,139	**174,285**
Other operating expenses		115,081	5,472	**120,553**	116,865	4,766	**121,631**
Depreciation	10, 11	12,915	–	**12,915**	12,859	–	**12,859**
Interest and other finance costs	9	8,767	–	**8,767**	8,852	–	**8,852**
Total expenditure	8	321,465	8,774	**330,239**	309,722	7,905	**317,627**
Surplus before other gains		29,034	1,164	**30,198**	33,968	1,476	**35,444**
Gain on investments	12	428	9,796	**10,224**	5,161	13,086	**18,247**
Change in fair value of hedging financial instruments	17	3,921	–	**3,921**	7,235	–	**7,235**
Surplus before tax		33,383	10,960	**44,343**	46,364	14,562	**60,926**
Taxation		–	–	–	–	–	–
Surplus for the year / Total comprehensive income for the year		33,383	10,960	**44,343**	46,364	14,562	**60,926**
Represented by:							
Endowment comprehensive income for the year	19	–	8,908	**8,908**	–	13,483	**13,483**
Restricted comprehensive income for the year	20	–	2,052	**2,052**	–	1,079	**1,079**
Unrestricted comprehensive income for the year		33,383	–	**33,383**	46,364	–	**46,364**
		33,383	10,960	**44,343**	46,364	14,562	**60,926**

All items of income and expenditure relate to continuing activities.

30 EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION	Group 2018-17 Total £'000	Group 2016-17 Total £'000	School 2018-17 Total £'000	School 2016-17 Total £'000
Surplus before other gains	30,198	35,444	30,250	35,506
Adjust for:				
Interest payable	8,262	8,271	8,262	8,271
Pension finance charge	505	581	505	581
Depreciation	12,915	12,859	12,809	12,779
Pension provision adjustments	(2,844)	(5,675)	(2,844)	(5,675)
Earnings before interest, tax, depreciation and amortisation	49,036	51,480	48,982	51,462
Adjust for:				
Restricted and designated income items	(13,371)	(14,861)	(13,378)	(14,870)
Restricted and designated expenditure items	9,872	8,891	9,872	8,891
Unrestricted earnings before interest, tax, depreciation and amortisation	45,537	45,510	45,476	45,483

Directors of the School and Members of Council

During the year and up to the date of signing of the Financial Statements were:

Dame Shirley Pearce
Chair of Court and Council
Chair of Nominations Committee
Chair of Remuneration Committee (until 5 March 2018)

Dr Susan Liautaud
Vice Chair of Court
Chair of the Ethics Policy Committee
Chair of Remuneration Committee (from 6 March 2018)

Mr Ali Nikpay
Lay governor
Vice Chair of Court

Dame Nemat (Minouche) Shafik
Director of the School (from 1 September 2017)

Professor Julia Black
Interim Director of the School (until 31 August 2017)

Professor Jason Alexander
Academic member (until 31 July 2018)

Mr Alastair Da Costa
Lay governor
Chair of the Health and Safety Assurance Committee (until 31 July 2018)

Mr John Hughes
Lay governor
Chair of the Audit Committee

Mr Nigel Hugill
Lay governor
Chair of the Estates Strategy Committee (until 31 July 2018)
Co-Chair of Finance and Estates Committee (from 1 August 2018)

Professor Simona Iammarino
Academic member

Professor Emily Jackson
Vice Chair of the Academic Board

Dr Ruth Kosmin
Lay governor (until 4 March 2018)

Mr Roger Mountford
Lay governor
Chair of the Finance Committee (until 31 July 2018)
Co-Chair of Finance and Estates Committee (from 1 August 2018)

Professor Terhi Rantanen
Academic member

Ms Elisabeth Stheeman
Lay governor
Vice Chair of the Finance Committee (until 31 July 2018)

Professor Alexander Voorhoeve
Academic member (from 1 August 2018)

Mr Chukwuzulum (Zulum) Elumogo
General Secretary of the Students' Union (from 3 July 2018)

Mr Mahatir Pasha
General Secretary of the Students' Union (until 2 July 2018)

Ms Justice Aina
Student member (from 7 December 2017)

Mr Chris Fairley
Student member (until 6 December 2017)

Company Secretary

Ms Louise Nadal
Company Secretary (from 1 January 2018)

Mr Andrew Webb
School Secretary (until 31 December 2017)

Academic Departments, Research Centres, Institutes and Centres

As at 20 November 2018

Academic Departments

Accounting

Anthropology

Economics

Economic History

European Institute

Finance

Gender Studies

Geography and Environment

Government

Health Policy

International Development

International History

International Relations

Language Centre

Law

Management

Mathematics

Media and Communications

Methodology

Philosophy, Logic and Scientific Method

Psychological and Behavioural Science

School of Public Policy

Social Policy

Sociology

Statistics

Research Centres

Centre for Analysis of Social Exclusion (CASE)

Centre for the Analysis of Time Series (CATS)

Centre for Climate Change Economics and Policy (CCCEP)

Centre for Economic Performance (CEP)

Centre for Philosophy of Natural and Social Sciences (CPNSS)

Financial Markets Research Group (FMG)

Grantham Research Institute on Climate Change and the Environment

International Growth Centre (IGC)

LSE Cities

LSE Health

Centre for Macroeconomics

Middle East Centre

Personal Social Services Research Unit (PSSRU)

Suntory and Toyota International Centres for Economics and Related Disciplines (STICERD)

US Centre (USC)

What Works Centre for Local Economic Growth

Institutes and Centres

Institute of Global Affairs (IGA)

- Diplomacy and Strategy (IDEAS)
- Firoz Lalji Centre for Africa (FLCA)
- Latin American and Caribbean Centre (LACC)
- South Asia Centre (SAC)
- South East Asia Centre (SEAC)
- Women Peace and Security (WPS)

International Inequalities Institute (III)

The Marshall Institute for Philanthropy and Social Entrepreneurship (MI)

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