

LONDON
SCHOOL *of*
HYGIENE
& TROPICAL
MEDICINE



**Financial
Statements
2012-13**

Improving health worldwide

Council

Chairman: Sir Tim Lankester KCB MA (Camb) MA (Yale)

Deputy Chairman: Dr D Walford CBE MA BSc MSc MD FRCP FRCPATH FFPH

Ex-Officio Members

Dr A Omokanye, Chair, Students' Representative Council (from 30.10.12)

Dr D S Jolliffe CB FRCP (Chairman of Court)

Professor Baron Peter Piot MD PhD FRCP CMG (Director)

Appointed by the Secretary of State for Health

Dr S Tanner BM MSc MRCP FFPH (to 31.03.13)

Appointed by the Secretary of State for International Development

Dr A Carter PhD FISoilSci MCIWEM

Appointed by the University of London

Professor N Barber BPharm PhD MRPharmS FRSM (to 31.08.13)

Independent Members

Mr K Chandarana BSc ACA

Ms A Grant, BA, MSc

Sir Tim Lankester KCB MA (Camb) MA (Yale)

Mr J O'Donnell

Mr J S Pethick (Honorary Treasurer and Chairman of Planning & Finance Committee)

Mr S Premchand, BA, FCA

Mr J Roper MA (Cantab)

Professor J Stephenson BSc PhD CBiol FSB

Dr D Walford CBE MA BSc MSc MD FRCP FRCPATH FFPH

Academic Staff Members

Ms L Clarke BSc MSc

Dr K Hanson BA MPhil ScD

Professor J M Kelly BSc PhD

Professor E M Riley BSc BVSc PhD

Professor D Ross, MA BM BCh MSc PhD DLSHTM (from 21.02.12)

Professor P Wilkinson BSc BM BCh MRCP (UK) MSc

Professional Support Staff Members

Mr D Arthur BSc

Mr D Parkin BA MInstLM (to 30.11.12)

Secretary

Secretary & Director of Resources & Planning: Mr R Benson

Financial Statements for the Year Ended 31 July 2013

Contents

Treasurer's Report.....	2
Corporate Governance.....	9
Responsibilities of the Council.....	13
Independent Auditor's Report to the Council.....	14
Statement of Principal Accounting Policies	16
Income and Expenditure Account	20
Statement of Total Recognised Gains and Losses	21
Balance Sheet.....	22
Cash Flow Statement.....	23
Reconciliation of Net Cash Flow to Movement in Net Funds	23
Notes to the Financial Statements.....	24

Treasurer's Report

Introduction and scope of financial statements

The London School of Hygiene & Tropical Medicine is a world-leading centre for research and postgraduate education in public and global health.

This review provides an overview of the School's finances and activities during 2012-13, and highlights key trends or changes in the external environment which have affected the School during the year. The School is operating in a challenging and uncertain environment. Recent years have seen significant changes to funding across the higher education sector and to the regulatory environment which have imposed pressures on all universities. The wider economic environment, combined with pressures on public expenditure and declining investment returns, have also affected a number of our major funders.

Despite these pressures, the School's income from its core teaching and research activities grew during the year, and this is an indication of the quality and relevance of our work. The School secured funding for major new programmes during 2012-13 from the Department of Health, the Department of International Development, the Medical Research Council, Wellcome Trust and others. The development of our teaching programme also continued, and the quality of the School's teaching was reflected by the positive outcome of the Quality Assurance Agency's institutional review completed in December 2012. Despite this, the School experienced a fall in student recruitment in 2012-13, which reflects wider concerns across the higher education sector about support for students progressing to postgraduate study; and in particular students from the UK.

We are living in times of rapid change and high uncertainty; both in terms of the financial and regulatory environment in which the School operates within the UK, and in the changing profile of the global disease burden and the globalisation of research, education and innovation. The School's Strategy aims to address these issues by:

- strengthening key areas of global and public health research
- sustaining the School's position as a world leader in current areas of strength in research and education
- increasing our global presence through partnerships
- enhancing multidisciplinary interactions across the School and with partners
- further expanding and diversifying our income streams
- maintaining a nurturing and supportive environment for research and education, with systems and facilities appropriate for the School's standing as a leader in the field.

An overview of some of the key actions that will take place over the next 2-3 years to support the Strategy is set out later in this report.

Treasurer's Report

Financial highlights and financial commentary

These financial statements report the results of the School's activities for the year ended 31 July 2013 and have been produced in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007.

The School's primary financial objectives are to manage its financial risks effectively, and to operate in a way that is financially sustainable and generates the funds needed to support our academic objectives.

Income and Expenditure for 2012-13 are summarised in the following table:

	2013 £m	2012 £m	% of income in 2012-13	% of income in 2011-12	% incr/ (decr) over prior year
Income	125.07	113.23			11%
Expenditure	(121.63)	(111.36)			9%
Operating surplus	3.44	1.87	2.8%	1.7%	84%
Taxation	-	-			
Transfer (to)/ from accumulated income within endowments	-	(0.06)			
Surplus for the year	3.44	1.81			

Income and Expenditure for 2012-13

There was a marked improvement in the School's operating surplus for 2012-13, compared to the previous year. This is clearly welcome, but the operating surplus of £3.44m is equivalent to 2.8% of our total income for the year and therefore remains below the benchmark figure of 3% which the Higher Education Funding Council for England (HEFCE) has historically regarded as necessary to provide funds for long-term, sustainable investment. Although the School regards this as an appropriate benchmark of our financial performance, we are nevertheless mindful of the fact that a significant proportion of our income from research grants and contracts (£22.9m, or 29% of total research income for the year) was passed on to our research partners in the UK and overseas. If these payments to research partners are excluded, the surplus of £3.44m would be equivalent to 3.4% of net income. The School does however incur costs in managing such a high level of partner payments.

The School recognises that we need to ensure that we are generating sufficient surpluses for investment. The School's Planning & Finance Committee has set a target of achieving annual surpluses of at least £3m throughout the planning period. The increased surplus achieved in 2012-13 is an indication of progress, and now needs to be sustained to ensure that the School generates sufficient funds to support investment in its academic priorities and the capital programme in the years ahead.

A detailed breakdown of sources of income and expenditure is shown in the Notes to the Financial Statements and comments on the principal factors affecting the surplus in 2012-13 are set out below.

Treasurer's Report

Highlights of income and expenditure

Income

	2013 £m	2012 £m	% of income in 2012-13	% of income in 2011-12	% incr/ (decr) over prior year
HEFCE grant	23.32	22.18	18.6%	19.6%	5%
Tuition fees	14.23	13.34	11.4%	11.8%	7%
Research income	79.34	71.79	63.4%	63.4%	11%
Other income	7.55	5.49	6.0%	4.8%	38%
Investment income	0.63	0.42	0.5%	0.4%	50%
Total income	125.07	113.23	n/a	n/a	11%

The above analysis shows that the School is less dependent on the recurrent grant from the Higher Education Funding Council for England (HEFCE) than most universities. However the HEFCE recurrent grant, 84% of which is driven by research performance, is nevertheless critical to the School's income. Maintaining HEFCE funding for research will in large part be dependent on the School's performance in the Research Excellence Framework (REF), and preparing the School's REF submissions has been a key priority throughout 2012-13. The greater emphasis given to research impact in the REF should provide an opportunity to highlight the strength of our applied research and the School has submitted strong case studies showing how our work has been translated into policy and practice. However, maintaining the excellent result achieved in the 2008 Research Assessment Exercise will be a challenge, and the results of the REF will be published in late 2014.

Tuition fee income increased in 2012-13, but this was achieved despite a fall in the number of students registering for the School's London-based taught courses. However, student numbers were maintained on distance learning programmes, and the financial impact of lower numbers in London was off-set by changes in tuition fees.

The following table gives an analysis of the number of London based and distance learning students:

London based taught course students	547
London based research degree students	407
Distance Learning students	2,538

As noted earlier, the dip in student registrations in 2012-13 reflects concerns across the higher education sector regarding recruitment at postgraduate level. There is a range of factors which have contributed to these concerns including the increase in postgraduate fees at many institutions (reflecting the reduction or withdrawal of HEFCE funding), concerns about increasing levels of student debt at undergraduate level, the impact of UK visa regulations on overseas recruitment and the impact of the wider economic environment on demand for postgraduate study (including the willingness and ability of potential applicants to take a year out of the job market to complete a conventional Master's course, and the availability of funding from employers or other sources).

The School made intensive efforts to support recruitment throughout the year, and initial registration figures for 2013-14 indicate that overall student numbers have returned to the level achieved in 2011-12. This healthier overall picture does however mask continuing concerns about recruitment for full-time UK students, where numbers have not recovered in line with those for other groups. The School welcomes the recent announcement that the Government and HEFCE will be investing in pilot projects to support progression from undergraduate to postgraduate study, but these will take some time to show results and we are therefore considering what further action the School can take to support recruitment in 2014.

Treasurer's Report

Expenditure

	2013 £m	2012 £m	% of operating costs in 2012-13	% of operating costs in 2011-12	% incr/ (decr) over prior year
Staff costs	59.47	55.56	50.9%	51.6%	7%
Other operating expenses	57.39	52.08	49.1%	48.4%	10%
Total operating costs	116.86	107.64	100.0%	100.0%	9%
Interest payable	0.83	0.85			
Depreciation	3.94	2.87			
Total expenditure before taxation and transfer from/ (to) endowments	121.63	111.36			

Staff costs increased by 7% in 2012-13 compared to the previous year, but this was driven primarily by the increase in research activity and income. This increase in research activity is the main factor responsible for the increase in other operating costs, and it should be noted that the increase of approximately £5.3m in non-staff costs shown in the table above includes an increase of approximately £3.0m in payments to research partners (which as noted earlier totalled £22.9m in 2012-13, compared to £19.9m in 2011-12).

The increase in the depreciation charge for 2012-13 is due to the completion of a major refurbishment project on some of the School's high specification laboratories, which came back into use in September 2012. The project had proved to be particularly difficult and protracted, but the laboratories are now fully operational and are functioning well. The Planning and Finance Committee has approved a revised project management framework which is now being applied to capital projects in order to ensure that we manage financial and other risks effectively. The School's internal auditors (Kingston City Group) were commissioned to undertake a review of project management arrangements for the School's largest current project during 2012-13, which provided an opinion of "substantial assurance" (the highest level available, indicating that sound control systems are in place and are being consistently applied).

Highlights of movements in assets and liabilities

There is a significant movement in the School's Tangible Assets, which is shown in Note 15 to the Balance Sheet. This is due to the completion of refurbishment work on the laboratories, and results in transfer of approximately £10.4m from "Assets in Progress" in 2012 to Freehold Land and Buildings in 2013.

The School's longer term investments valued at £5.1m at year end and its Endowment Assets of £11.0m increased on the previous year mainly due to favourable market conditions especially in equities in 2013. The long term investments are managed by an investment manager with discretion to invest in accordance with the School's investment policy.

Net current assets have increased by £9.2m. Cash and short term investments together have risen £11.4m compared with last year. The School has continued its policy of safety with regard to short term cash surpluses despite the very low returns of around 0.5% per annum. The investment of £5.0m in 2012-13 was a one year term deposit with Nat West Bank plc which matured in August 2013. The remaining cash balances of £36.6m are invested mainly in short term bank deposits of up to two months or Treasury bills.

The cash increase is offset by an increase of £2.3m in Creditors falling due within one year. Note 20 provides further details.

Creditors falling due after more than one year comprise unsecured term loans and details are provided in Note 21.

Treasurer's Report

Public Benefit Statement

The School is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011. The School's Council serves as our trustee and is responsible for defining our strategic aims and for directing the senior management of the School in the furtherance of our mission. When setting objectives and planning activities, Council, its sub-committees and the Senior Leadership Team give careful consideration to the Charity Commission's guidance on public benefit and to the guidance issued by HEFCE in its role as principal regulator.

The School's objectives are defined in our Charter as being "to promote original research, consultancy and education in public health and tropical medicine, both within the UK and internationally". The School remains dedicated to these objectives, and to reducing inequalities in health and global disease burdens through research and education.

The School's research encompasses a spectrum from fundamental laboratory research in infectious diseases and studies of disease causation, through development and assessment of novel interventions and services, to advising on implementation in real life settings of interventions, service and system reforms, and evaluation that informs policy and practice. We work with a range of partners at every stage; these include research collaborators in other academic settings, clinical and health practitioners, user communities, public, private and voluntary sector organisations.

Examples include:

- the School's researchers have made substantial contributions to DNA-based detection methods for blood-borne parasites. The School, working with clinical colleagues, has recently demonstrated vastly improved detection of malaria parasites in suspected cases presenting to London hospitals. Based on this work, the School is also working with the NHS and the National Blood Service to improve methodologies for very sensitive detection of parasites in blood products.
- every year traumatic bleeding, mostly from road accidents or violent crime, causes hundreds of thousands of deaths worldwide. The CRASH-2 trial led by School researchers found that post-injury administration of the drug tranexamic acid (TXA) in such cases reduced mortality by one sixth without exhibiting serious side effects. Further analysis estimated administration of the drug to be highly cost-effective, with the estimated incremental cost per life year gained of administering TXA being £42 in the UK. The study has had a wide impact, with TXA being included in the WHO's List of Essential Medicines. The UK health minister Earl Howe described the study as 'a great example of how important research can help the NHS save more lives and spread best practice around the world'.
- pandemic influenza is a major threat to global health, and it is important that research is conducted at an international level, together with implementation of guidelines for prevention and improved disease treatment. Over recent years the School has developed an innovative framework to analyse national strategic preparedness for a flu pandemic, and this has led governments in Europe and South-East Asia to change their policies. School researchers have also acted as advisors to the UK Government.

In the Research Assessment Exercise of 2008, the School was among the highest ranked institutions in the UK, with between 65% and 80% of our research assessed as world leading or internationally excellent. We have a far-reaching network of long-standing national and international collaborations with around 100 School staff living and working in low and middle-income countries. The School does not feature in many of the published league tables of universities, because it does not have undergraduate students. This meant, for example, that it was excluded from the World University Ranking recently published by the Times Higher Education (THE) and Thomson Reuters. THE nevertheless identified the School as one of a group of world class institutions outside the main league table, and ranked the School as the number one institution in the world in the category of research-focussed graduate schools.

The overarching aims of our education programmes are to provide future leaders, practitioners, educators and researchers in public and global health with relevant education and training of the highest quality, founded on our research; and to offer flexibility in access to study opportunities, facilitated by strategic partnerships and the use of appropriate technology. We have an excellent and highly committed multinational student and alumni population, with alumni in influential places and positions worldwide.

Although it is wholly postgraduate institution, the School is committed to widening participation and offers a number of scholarships to students both for its London-based and distance learning courses. We are also actively fundraising to increase the number and value of such scholarships. Looking beyond recruitment to our own courses, we have established links with schools in Barking and Dagenham, and, thanks to the generosity of a donor, a total of 110 work experience students were able to visit the School in 2012-13 to learn about research in a scientific institution. Pupils undertake research projects while they are visiting the School and staff and students are invited to respond to questionnaires and attend presentations made by the pupils.

The School's public benefits are funded through funding council grants; public funding for teaching and research; tuition fees and donations from individuals and charitable foundations. The charitable work of the School is also supported by its Council members, who give their time freely in support of the School.

Treasurer's Report

Future Developments

The School is currently budgeting for a surplus of approximately £2.5m in 2013-14, with annual surpluses of between £3m and £3.5m in subsequent years. The School has been successful in attracting research funding, and has continued to develop its teaching programme including distance learning courses. However the economic climate remains uncertain, and pressure on public expenditure is likely to increase further from 2015-16. Along with other universities, the School is also mindful of the potential shortfall in funding for the national Universities Superannuation Scheme. The next triennial valuation of the scheme is due in March 2014.

We will continue - and where possible accelerate - existing plans to develop and diversify our sources of income to ensure that we can invest to support the priorities identified in our Strategy and that we remain competitive with comparable institutions in North America, Europe and, increasingly, those emerging in middle income countries.

As an entirely postgraduate institution, the School has been less affected than many universities by changes to HEFCE's funding arrangements for teaching introduced in 2012-13. The School did increase its tuition fees for new UK and EU students in order to off-set anticipated cuts in funding from the UK Government and, as noted earlier, this increase in fees may have been one factor contributing to the dip in student numbers for the year. It is noticeable, however, that while there was a significant fall in full-time UK students registering in 2012-13, there was no reduction in the number of EU students paying the same level of fees. Initial figures for 2013-14 indicate that, despite some recovery, full-time UK numbers remain at a lower level than in 2011-12, while the number of EC students has increased. This suggests that the decline in full-time UK students is due to other factors beyond the level of tuition fees.

In last year's report, the School expressed concern that the Government had yet to set out a clear policy regarding postgraduate provision, and had done limited work to assess the impact that changes in fees and funding at undergraduate level might have on student demand for postgraduate study. During 2012-13 the Government has devoted significant attention to the issue, and has recognised the critical importance of postgraduate study to developing the advanced skills needed in the bioscience and public health sectors, and the future success of the UK economy. It is unclear at this stage how effective recent Government initiatives will be in helping to address these concerns.

As noted earlier, initial figures for 2013-14 indicate that overseas student numbers have recovered from the dip in 2012-13, but the School - like many of others in higher education - has serious concerns that current visa restrictions are deterring able and well qualified students from coming to the UK. We have similar concerns about the long-term impact that visa restrictions may have on the ability of the School - and of UK science more generally - to attract and retain the highest quality staff.

Demand for the School's distance learning programmes has increased significantly over recent years. There are currently five MScs offered in Clinical Trials, Epidemiology, Infectious Diseases and Public Health, and Global Health Policy.

Continued investment and innovation are essential if the School is to maintain its position in an increasingly competitive international market. The School's vision for our teaching is to bring together distance learning and London-based study to provide flexible mixed-mode programmes which will address the developing needs of students and employers. This model may become increasingly attractive as levels of undergraduate debt increase, and those wishing to undertake a Master's degree look for alternative routes that do not require full-time study.

The School is also investigating ways in which it can capitalise on the significant investment that it has made in distance learning materials, including the development of Massive Open Online Courses (MOOCs).

Given all of these developments, the Senior Leadership Team has instigated a review of the School's education programme which will explore opportunities for: further split-site, overseas and collaborative teaching; further development of on-line learning and the use of technology in education; and the development of executive education programmes.

Research grants and contracts will remain the School's largest source of income. In an increasingly competitive environment, maintaining the current level of income will be a challenge. Improving current rates of cost recovery will also be essential. Given the focus of our work, it is anticipated that charities and foundations will continue to be major sponsors of the School's research. Such work is fundamental to the School's mission, and to the UK science base. However, research funded by charities and foundations does not generally contribute towards the recovery of indirect costs. The Government's previous commitment to ring-fence the science budget was therefore welcome, including the maintenance of the charity support element within the HEFCE recurrent grant (which provides a contribution towards the overhead costs of charity-funded work). However it is unclear whether this funding will be maintained beyond the next Spending Review in 2015-16.

Treasurer's Report

Continued investment in science and high quality research will be vital for the School and other world-leading, research-led institutions, and also for the UK economy. But within the framework of the School's Strategy, the School may nevertheless need to take a view on the volume of research undertaken on behalf of certain sponsors. Whether strategically, or on a case by case basis, this may include taking action to limit activity and proposal submissions in certain areas where indirect costs are not recovered. The School's priority will be to maintain research of the highest international standards, where we can make a distinctive impact on public health needs and the advancement of science. Any changes in the funding environment for research will also need to be managed alongside any shifts in funding that may follow the outcome of the REF.

While significant growth has been achieved in research and distance learning over recent years, generating additional income from third stream activities has proved more difficult. Developing this area is now essential, and is a priority for both the Senior Leadership Team and the Planning and Finance Committee. The Planning and Finance Committee has established a dedicated sub-committee to advise on this area of work, and during 2012-13 the School established a subsidiary company, Chariot Innovations Limited, as a vehicle for third stream activity. The activity (providing contract research and testing services for insect repellents and other products) will transfer to Chariot in the autumn of 2013.

During the past year, the School has implemented new structures in parts of our administration and central services which are designed to improve services for Faculties and departments to support our academic objectives. But over time the changes – combined with further investment in our management information systems – will also drive greater consistency in processes and procedures across the School.

The first priority for the next phase of the capital programme will be investing in our laboratories, whilst continuing to manage the infrastructure of the Keppel Street building. In November 2011 the School signed a memorandum of understanding with University College London to develop the Bloomsbury Research Institute (BRI), building on the institutions' complementary expertise in infectious disease research. Alongside the scientific rationale for BRI, the initiative also presents an opportunity for both partners to share the costs of expensive laboratory equipment and the development of new facilities.

Development of a new shared laboratory facility will require significant investment from both partners, and – following a full feasibility study – we have identified vacant land behind the School's Tavistock Place building as the preferred location. A BRI Strategy Board has been established to lead the project, chaired by the School's Director, with the Dean of UCL's Faculty of Medical Sciences as vice-chair. Leading scientists from the School and UCL have been working together to develop the academic strategy for BRI, and as the lead partner the School will be submitting a bid to HEFCE in late 2013 seeking support from its Catalyst Fund.

The creation of new laboratory space at Tavistock Place would release space in the School's Keppel Street building, which would greatly facilitate major works that will be needed to upgrade the building's ageing infrastructure. The budget for 2013-14 and our financial forecasts include investment of approximately £500k per annum to address priority infrastructure works. This will support a phased programme of planned and preventative maintenance that will enable us to manage the infrastructure issues and maintain all of our core services until the new laboratory facility is complete. The costs of subsequent major works have been included in the business case for the BRI.

Attracting support for BRI is the top priority for the School's fundraising programme, working closely with colleagues from UCL. It will be essential to ensure that secure funding is in place before the School's governing Council commits to such significant capital investment and the Planning and Finance Committee is currently assessing funding options.

In brief, there remains a risk that the School's funding will be adversely affected by reductions in public expenditure from 2015-16, and that funding by charities and other funders will be similarly constrained. However, the School is confronting these risks from a sound financial position and with a strong balance sheet. The development of BRI – together with the other partnerships outlined in our Strategy – presents a significant opportunity for the School, although meeting the potential cost of a joint laboratory facility whilst also managing the infrastructure of the Keppel Street building will be a significant risk over the coming years. The School's Council and Senior Leadership Team will need to manage all of these risks carefully, and balance the demands of capital investment with the need to continue investment in academic initiatives which will both support our Strategy and also help to mitigate the impact of any future cuts in public funding.

J S Pethick
Treasurer



November 2013

Corporate Governance

Corporate Governance Statement

The following statement provides information about the School's governance procedures.

The School is committed to exhibiting best practice in all aspects of corporate governance. Throughout the year covered by these financial statements, the School complied with the Governance Code of Practice published by the Committee of University Chairs (CUC).

A list of the Council members, who served during the financial year and until the date the financial statements were formally approved, can be found at the beginning of this document.

Statement of Internal Control

The Council is responsible for the School's system of internal control and for reviewing its effectiveness. The School reviewed and updated its risk management framework during the year, to support the revised School Strategy approved by Council in April 2012.

The Risk Management Framework is intended to ensure that the School has the skills, management arrangements and organisational structures in place to take advantage of opportunities, whilst managing the strategic and operational risks that may prevent it from achieving its strategic objectives. The School takes its responsibilities to its stakeholders seriously and regards risk management as both a tool of good management and an important factor in ensuring that the School meets its obligations to its key stakeholders.

The approach to internal control is risk based and is supported by a programme of internal audit work which reflects this approach. The Audit Committee approves the internal audit programme and receives the internal audit reports at its regular meetings during the year. The Committee has also developed an assurance matrix which sets out sources of external and internal assurance for key areas of internal control.

The internal auditors provided an annual report which includes an opinion on the School's internal controls. The report for 2012-13 concludes that, in the internal auditors' opinion, the School maintained adequate controls over its core financial and non-financial processes and within the overall IT environment. They also gave an opinion of limited assurance for the payroll system and the IT control environment. An action plan is in place to address the issues raised and has been agreed by the Audit Committee. The internal auditors gave a positive opinion on the School's arrangements for risk management and for ensuring value for money.

The School's arrangements for both risk management and value for money have been strengthened during 2012-13, and work is continuing to embed these systems across all areas of the School. A strategic risk register is in place, which identifies the high level "red" and "amber" risks linked to the School's Strategy, and provides a tool for evaluating and managing each risk. Strategic risks are monitored by the Senior Leadership Team on a monthly basis, and risk is also a standing item at all meetings of Council. Risk registers are in place for all faculties and central services which assess the likelihood and impact of operational risks.

The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide a reasonable and not absolute assurance against material misstatement or loss.

Summary of the School's Structure of Corporate Governance

The School was established in 1899 and is incorporated under a Royal Charter granted in 1924. Following approval by the Privy Council, a Supplemental Charter came into effect in March 2009. The Supplemental Charter updated the previous Charter and the governing body of the School (formerly known as the Board of Management) was re-titled the Council. But in all substantive respects, the responsibilities of the Council for the governance and financial management of the School are unchanged from those of the Board of Management.

The Council has sole management control and supervision of the School including the appointment and payment of officers, the management of property and responsibility for ensuring that Financial Statements accurately reflect the year's operation and are in line with the guidelines and appropriate accounting standards set by the Higher Education Funding Council for England (HEFCE).

A Statement of Council's Primary Responsibilities is set out in the next section of this document.

Corporate Governance

The Council comprises a majority of lay members, as well as staff members and a student member. The roles of Chairman and Deputy Chairman of the Council are separated from the role of the School's Chief Executive, the Director.

The Council is responsible for the ongoing strategic direction of the School, approves major developments and receives regular reports from Executive Officers on the operations of its business, in accordance with the Financial Memorandum between the School and the HEFCE.

Council meets four times a year and has several committees, including a Planning and Finance Committee, an Audit Committee, a Remuneration Committee, and a Membership Committee. Council delegates a number of functions to these committees which are formally constituted with terms of reference and include members of Council. Each of these committees is chaired by a non-staff member of Council.

The Planning and Finance Committee *inter alia* recommends to Council the School's annual revenue and capital budgets, monitors performance in relation to the approved budgets, considers issues relating to personnel policy and advises on all resource and strategic planning issues.

The Audit Committee is responsible for meeting four times annually with the External Auditors and Internal Auditors of the School. The Committee considers detailed reports together with recommendations for the improvement of the School's systems of internal control, and management's responses and implementation plans. It also considers reports from the HEFCE and other School funders as they affect the School's business, and monitors adherence with the regulatory requirements. The Committee adopts a risk-based approach to internal audit planning and the internal audit work undertaken in the year ended 31 July 2013 has been governed by this approach. Whilst senior executives attend meetings of the Audit Committee as necessary, they are not members of the Committee. The Committee produces an annual report to Council covering all aspects of its work.

The Committee reviews the School's Annual Financial Statements, with particular regard to this statement of Corporate Governance, the external auditors' report, and adherence to the School's accounting policies. Responsibility for assessing the School's financial performance rests with the Planning and Finance Committee.

The Membership Committee considers nominations for lay member vacancies on the Council and its sub-committees in accordance with CUC guidance. Its recommendations to the Council take into account the balance of skills, knowledge and experience of the Council and sub-committees' members.

The Remuneration Committee determines the annual remuneration of senior staff and policies related thereto.

The senior forum for consideration of all academic matters is the Senate, which includes representatives of senior and junior members of academic staff from across the School together with professional support staff members and student representatives. The Senate reports to Council following each meeting.

Council undertakes periodic reviews of its effectiveness, in line with guidance from the CUC. Council began such a review in 2012-13, and will consider recommendations arising from the review in the Autumn term of 2013-14. It is anticipated that the review will result in some changes to the membership of Council, the format of its meetings and reporting from sub-committees. However, no substantive changes will be made to the responsibilities of Council or its principal sub-committees. In reviewing the membership of Council, the School will look to improve the diversity of Council and its sub-committees, reflecting its commitment to Athena SWAN and the values set out in the School Strategy.

The School maintains a register of interests for members of Council, lay members serving on sub-committees and senior officers, which may be consulted by arrangement with the Secretary and Director of Resources and Planning.

Details of related party transactions involving members of Council or senior officers are disclosed in Note 33 to the Financial Statements. The lay members of Council do not receive any payment for the work they do for the School, apart from the reimbursement of expenses.

Council: Statement of Primary Responsibilities

All members should exercise their responsibilities in the interests of the School as a whole and not as a representative of any constituency. Members are expected to attend most meetings in order to fulfil responsibilities

Strategy

1. To oversee the development of and approve the mission, strategic vision and long-term academic and business plans of the School.

Corporate Governance

2. To delegate authority to the Director, as chief executive, for the academic, corporate, financial, estate and personnel management of the School and; to establish and keep under regular review the policies and procedures as shall be undertaken by and under the authority of the Director.
3. To oversee and facilitate where appropriate proactive and productive relationships with the School's major stakeholders.

Controls

4. To ensure the establishment and monitoring of systems of control and accountability, including financial and operational controls, governance and risk assessment, and procedures for handling internal grievances and for managing conflicts of interest.
5. To oversee the solvency of the School, safeguard its assets; ensure that systems are in place to secure value for money (economy, efficiency and effectiveness) in relation to all School activities; and to advise on the allocation of those resources necessary for the School to maximize its performance.

Performance

6. To monitor and evaluate the performance and effectiveness of the School against its plans (i.e. the School's Strategy, other strategic plans etc) through review of approved key performance indicators, which should be, where possible and appropriate, benchmarked against other comparable institutions.
7. To establish processes to monitor and evaluate the performance and effectiveness of the School and the Council itself.

Values

8. To conduct its business in accordance with best practice in higher education corporate governance and with the principles of public life drawn up by the Committee on Standards in Public Life (i.e. selflessness, integrity, objectivity, accountability, openness, honesty and leadership).
9. To safeguard and actively promote the reputation and standing of the School.

Conflicts of Interest

10. To declare any interests (personal, financial and other) in matters under discussion and routinely record such interests in the School register.

Personal Liability

11. To act in accordance with the following principles, in order to avoid actions which could result in personal liability:
 - understand individual/collective responsibilities within the School
 - act honestly, reasonably and in good faith without being bound by commitments to any other persons or bodies
 - act with skill and care to safeguard the assets of the School
 - be satisfied that any course of action proposed is in accordance with the School's Charter and Regulations
 - not bind the School to a course of action which it cannot carry out
 - ensure that the School does not continue to operate if it is insolvent or there is no reasonable prospect of avoiding an insolvency
 - ensure that sufficient financial and other information is made available and properly considered on a regular basis
 - seek to persuade colleagues by open debate, and register dissent where concerned, that the action would be contrary to any of the above
 - avoid situations where there is actual or potential conflict of member interests and those of the School
 - ensure that professional advice is taken by the School wherever appropriate

This is general guidance and not a statement of the law.

Corporate Governance

Membership and Committees

12. To appoint external members to Council, including a Chairman, Deputy Chairman and Honorary Treasurer (who shall be Chairman of Planning and Finance Committee), and Court.
13. Appoint standing and ad hoc committees as required, determining both compositions and terms of reference.

Academic

14. To ensure that systems are in place to monitor the quality of the School's teaching, training, learning and research activities and to receive reports and recommendations from Senate on all academic matters.
15. To make such provision as Council thinks fit for the general welfare of students, in consultation with Senate.

Staff

16. To be responsible for the appointment, suspension and dismissal of the Director as chief executive, to determine the conditions of appointment and to put in place suitable arrangements for monitoring his/her performance.
17. To appoint a secretary to Council and to ensure that, if the person appointed has managerial responsibility in the School, there is an appropriate separation in the lines of accountability.
18. To be the employing authority for all staff in the School, including undertaking an annual review of senior staff to determine performance related pay awards, and to ensure the establishment of a human resources strategy.
19. To ensure that strategies are in place for succession planning of the School's senior management posts.
20. To make such provision as it thinks fit for the general welfare of staff.

Safety

21. To ensure that the School carries out all activities safely and with regard to the health and safety of all its students, staff and those who may be affected by its activities.

Equal Opportunities

22. To ensure that the School provides equal opportunities for its staff and students and undertakes all its activities in relation to equal opportunities.

Financial

23. To be the principal financial and business authority of the School, to ensure that the conditions of the Financial Memorandum with HEFCE are met, to ensure that proper books of account are kept, to approve the annual budget and financial statements and to have overall responsibility for the School's assets, property and estate.
24. To act as trustee for any property, legacy, endowment, bequest or gift in support of the work and welfare of the School.

Estates

25. To be the principal authority for holding land and property, and accountable for its appropriate acquisition, maintenance and disposal.

Legal Compliance

26. To be the School's legal authority and, as such, to ensure that systems are in place for meeting all the institution's legal and regulatory obligations, including those arising from contracts and other legal commitments made in the School's name.

Responsibilities of the Council

The School's Charter vests the custody and control of all assets in the Council. The Financial Memorandum between the HEFCE and the School requires the Council to ensure that Financial Statements are prepared for each financial year which give a true and fair view of the state of affairs of the School and of its income and expenditure, cash flows and recognised gains and losses for that period.

1. Under the School's Charter the Council has appointed a Planning and Finance Committee *inter alia* to:
 - (i) approve and recommend to the Council the School's annual budget and longer-term financial projections and to monitor performance against budget;
 - (ii) submit the School's Financial Statements to the Council for approval; and
 - (iii) approve systems of internal financial control and accounting.
2. In causing the Financial Statements to be prepared, the Planning and Finance Committee, on behalf of the Council, seeks to ensure that:
 - (i) suitable accounting policies are selected;
 - (ii) judgements and estimates are made that are reasonable and prudent;

the Financial Statements are prepared on the going concern basis unless it is inappropriate to presume that the School will continue to operate as an institution providing teaching and research, and
3. On behalf of the Council, the Planning and Finance Committee is responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the School and enable it to ensure that the Financial Statements comply with the Financial Memorandum between the Higher Education Funding Council for England and the School. It is also responsible for ensuring that the assets of the School are safeguarded.
4. The Audit Committee is responsible for reviewing the effectiveness of internal control systems and thereby ensuring that controls are in place to prevent and detect fraud or other irregularities. The Committee reviews whether satisfactory arrangements are in place to promote economy, efficiency and effectiveness and monitors the performance and effectiveness of external and internal audit. The Committee also ensures that there are adequate and effective arrangements in place for risk management.
5. The Council has taken reasonable steps to:
 - (i) ensure that funds from the HEFCE are used only for the purposes for which they have been given and in accordance with the Financial Memorandum between the Higher Education Funding Council for England and the School and any other conditions which the Funding Council may from time to time prescribe;
 - (ii) ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
 - (iii) ensure that there is an ongoing process for identifying, evaluating and managing the School's significant risks;
 - (iv) safeguard the assets of the School and to prevent and detect fraud; and
 - (v) secure the economical, efficient and effective management of the School's resources and expenditure.

Independent Auditor's Report to the Council of the London School of Hygiene & Tropical Medicine

We have audited the School financial statements (the "financial statements") of the London School of Hygiene and Tropical Medicine for the year ended 31 July 2013 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Council, in accordance with the Charter of the School. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the School Council and auditor

As explained more fully in the Responsibilities of the Council statement on page 13, the Council is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the affairs of the School as at 31 July 2013 and of the School's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

Independent Auditor's Report to the Council of the London School of Hygiene & Tropical Medicine

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

In our opinion, in all material respects:

- funds from whatever source administered by the School for specific purposes have been properly applied to those purposes; and
- funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matter where the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 requires us to report to you if, in our opinion:

- the statement of internal control included as part of the Corporate Governance Statement is inconsistent with our knowledge of the School.



P Johnstone

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

26 November 2013

Statement of Principal Accounting Policies

1. Basis of preparation

These Financial Statements have been prepared in accordance with the 2007 Statement of Recommended Practice (SORP): Accounting for Further and Higher Education, and in accordance with applicable UK Accounting Standards.

2. Basis of accounting

The Financial Statements have been prepared in accordance with the historical cost convention, modified by the revaluation of Fixed Asset Investments and Endowment Asset Investments.

3. Recognition of income

- Recurrent grants from the HEFCE are recognised in the period in which they are receivable. Non-recurrent grants from the funding council or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with the depreciation policy over the life of the assets.
- Tuition fee income is stated gross and credited to the Income and Expenditure Account in the year in which the students are studying.
- Income from Research Grants, Contracts and Other Services Rendered is included to the extent of the expenditure incurred during the year, together with any related contributions towards indirect costs.
- Income from the sale of goods or services is credited to the Income and Expenditure Account when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.
- Income from specific endowments and donations has been credited to the Income and Expenditure Account on a receivable basis and any excess or shortfall relating to expenditure on specific endowments in the year is transferred to specific endowments in the Balance Sheet.
- Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.
- All income from short-term deposits is credited to the Income and Expenditure Account.
- Donations received to be applied to the cost of a tangible fixed asset are shown on the balance sheet as a deferred capital grant. The deferred capital grant is released to the income and expenditure account over the same estimated useful life that is used to determine the depreciation charge associated with the tangible fixed asset.
- Gifts in kind, including donated tangible fixed assets, are included in 'other income' or 'deferred capital grants' as appropriate using a reasonable estimate of their gross value or the amount actually realised.
- Any increase in value arising on the revaluation of fixed asset investments is carried as a credit to the Investment Reserve, via the Statement of Total Recognised Gains and Losses; a decrease in the value is charged to the Income and Expenditure Account to the extent that it is not covered by a previous revaluation surplus.

4. Operating leases

Costs in respect of operating leases are charged over the term of the lease.

Statement of Principal Accounting Policies

5. Pension schemes

The School's employees participate in three defined benefit schemes which are contracted out of the State Second Pension (S2P) - the Universities' Superannuation Scheme (USS), the Superannuation Arrangements of the University of London (SAUL), both of which are externally funded schemes, and the National Health Service Scheme which is unfunded. Because of the mutual nature of USS and SAUL, the schemes' assets are not hypothecated to individual institutions and instead 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. The School therefore, as required by FRS 17 "Retirement Benefits" accounts for the pension schemes as if they were defined contribution schemes. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period. (See Note 32 to the Financial Statements).

6. Tangible fixed assets

Freehold and Leasehold Land and Buildings

Land and buildings are stated at cost. Freehold land is not depreciated.

The School has a policy of depreciating freehold buildings, and major adaptations to buildings, over their expected useful economic life to the School of between 10 and 50 years. Long leasehold buildings are depreciated over a useful economic life of 50 years irrespective of the length of the lease. Short-leasehold properties, where the lease is less than 50 years in length, are depreciated over the life of the lease.

Where land and buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

Finance costs which are directly attributable to the construction of land and buildings are not capitalised as part of the cost of those assets.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of any fixed asset may not be recoverable.

Expenditure on assets in the course of construction is capitalised in the year in which it arises. No depreciation is charged until the year in which the asset comes into use.

Equipment and furniture

Expenditure on equipment and furniture costing less than £10,000 per individual item is written off in full in the year of acquisition. All other equipment is capitalised at cost.

All equipment is stated at cost and depreciated over its expected useful life, as follows:

Equipment acquired for specific research projects	the remaining project life
All other equipment	four years
Furniture	four years

Where equipment is acquired with the aid of specific grants, it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to income and expenditure account over the expected useful economic life of the related equipment.

7. Investments

Endowment asset investments and fixed asset investments are included in the Balance Sheet at market value. Unlisted investments are stated at historical cost less any provision for impairment in their value.

Statement of Principal Accounting Policies

8. Cash flows and liquid resources

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

Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and loan stock held as part of the School's treasury management activities. They exclude any such assets held as endowment asset investments.

9. Endowment funds

Where charitable donations are to be retained for the benefit of the School as specified by the donors, these are accounted for as endowments. There are three main types:

- 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 institution can convert the donated sum into income.
- 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.

10. Provisions

Provisions are recognised in the financial statements where the School has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is discounted to present value where the time value of money is material. The discount rate used reflects current market assessments of the time value of money and reflects any risks specific to the liability.

Contingent liabilities are disclosed by way of a note when the definition of a provision is not met, and include three scenarios: a possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; an inability to measure the economic outflow.

Contingent assets are disclosed by way of a note where there is a possible, rather than present, asset arising from a past event.

11. Financial instruments

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

Such derivative financial instruments are not held for speculative purposes and relate to actual assets or liabilities or to probable commitments, changing the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts. In instances where the derivative financial instrument ceases to be a hedge for an actual asset or liability, then it is marked to market and any resulting profit or loss recognised at that time.

A financial asset and a financial liability are offset only when there is a legally enforceable right to set off the recognised amounts and an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Statement of Principal Accounting Policies

12. Taxation status

The School is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011 and as such is a charity within the meaning of Section 506(1) of the Taxes Act (ICTA) 1988. Accordingly, the School is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the ICTA 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 is partially exempt for the purposes of Value Added Tax (VAT) and is only able to reclaim a small element of VAT charged on purchases of goods and services.

13. Foreign currency translation

Transactions denominated in foreign currency are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year-end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

14. Subsidiary companies

The Financial Statements refer solely to the activities of the London School of Hygiene & Tropical Medicine. The School has an investment of £4, in two wholly owned subsidiaries, Salus Limited and Chariot Innovations Limited, both incorporated in the United Kingdom. Both were dormant throughout the year.

15. London International Development Centre

The School, along with four other colleges in the Bloomsbury area, participates in the London International Development Centre (LIDC) which is a "joint arrangement that is not an entity" (JANE) as defined by FRS9. The School therefore includes its share of the assets, liabilities and cash flows in the Financial Statements, measured in accordance with the terms of the arrangement (see Note 10 to the Accounts).

16. Going concern

Council considers that the School has sufficient financial resources and is confident that its future income streams will maintain these resources. The Council believes that the School is well placed to effectively manage its business risks, despite the current uncertain economic situation.

The Council has a reasonable expectation that the School has adequate resources to continue in operation for the foreseeable future. Thus, it continues to adopt the going concern basis in preparing the financial statements.

Income and Expenditure Account for the year ended 31 July 2013

	Notes	2013 £000	2012 £000
INCOME			
Funding council grants	1	23,321	22,184
Tuition fees	2	14,232	13,342
Research grants and contracts	3	79,341	71,791
Other income	4	7,552	5,492
Endowment and investment income	5	628	416
Total income		125,074	113,225
EXPENDITURE			
Staff costs	6	59,472	55,562
Other operating expenses	8	57,386	52,076
Depreciation	15	3,937	2,869
Interest payable	7	835	853
Total expenditure		121,630	111,360
Surplus after depreciation of tangible fixed assets and before tax		3,444	1,865
Taxation	9	1	(3)
Surplus after depreciation of assets and tax		3,445	1,862
Transfer (to) accumulated income within restricted endowments	23	-	(54)
Surplus for the year retained within general reserves	24	3,445	1,808

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

Statement of Total Recognised Gains and Losses for the year ended 31 July 2013

	Notes	2013 £000	2012 £000
Surplus on continuing operations after depreciation of assets and tax		3,445	1,862
Increase/(decrease) in value of fixed asset investments chargeable to investment reserve	16	448	(111)
Increase/(decrease) in value of endowment asset investments	17	982	(260)
New endowments	23	372	360
Total recognised gains relating to the year		<u>5,247</u>	<u>1,851</u>
Reconciliation			
Opening reserves and endowments		36,529	34,678
Total recognised gains for the year		5,247	1,851
Closing reserves and endowments		<u>41,776</u>	<u>36,529</u>

Balance Sheet as at 31 July 2013

	Notes	2013 £000	2012 £000
Fixed Assets			
Tangible assets	15	69,402	72,161
Investments	16	5,075	4,627
		<u>74,477</u>	<u>76,788</u>
Endowment Asset Investments	17	<u>10,957</u>	<u>9,603</u>
Current Assets			
Debtors	18	21,579	23,748
Investments	19	5,000	-
Cash at bank and in hand		36,649	30,290
		<u>63,228</u>	<u>54,038</u>
Creditors: amounts falling due within one year	20	(54,177)	(51,819)
Net Current Assets		<u>9,051</u>	<u>2,219</u>
Creditors: amounts falling due after more than one year	21	(15,749)	(16,168)
NET ASSETS		<u>78,736</u>	<u>72,442</u>
Represented by:			
Deferred Capital Grants	22	<u>36,960</u>	<u>35,913</u>
Endowment Funds			
Restricted permanent funds	23	8,003	7,847
Restricted expendable funds	23	1,306	277
Unrestricted permanent funds	23	1,648	1,479
		<u>10,957</u>	<u>9,603</u>
Reserves			
Income and expenditure account	24	29,029	25,584
Investment reserve	25	1,790	1,342
		<u>30,819</u>	<u>26,926</u>
TOTAL FUNDS		<u>78,736</u>	<u>72,442</u>

The Financial Statements on pages 16 to 42 were approved by the Council on 19th November 2013 and signed on its behalf by:



Professor Baron Peter Piot
Director



Sir Tim Lankester
Chairman, Council

Cash Flow Statement

	Notes	2013 £000	2012 £000
Net cash inflow/(outflow) from operating activities	26	10,014	(6,501)
Returns on investments and servicing of finance	27	(207)	(437)
Taxation	9	-	(2)
Capital expenditure and financial investment	28	1,542	2,225
Management of liquid resources	29	(5,000)	5,000
Financing	30	(408)	(341)
Increase/(decrease) in cash in the year	31	<u>5,941</u>	<u>(56)</u>

Reconciliation of Net Cash Flow to Movement in Net Funds

		2013 £000	2012 £000
Increase/(decrease) in cash in the year		5,941	(56)
Increase/(decrease) in short term deposits	29	5,000	(5,000)
Decrease in debt		408	341
Change in net funds		<u>11,349</u>	<u>(4,715)</u>
Net funds at 1 August		14,043	18,758
Net funds at 31 July	31	<u>25,392</u>	<u>14,043</u>

Notes to the Financial Statements

1	Funding Council Grants			
	<i>Higher Education Funding Council for England</i>	Notes	2013	2012
			£000	£000
	Recurrent grants		21,338	21,002
	Specific grants		217	94
	Release of deferred capital grants			
	Buildings	22	1,606	842
	Equipment	22	160	246
			<u>23,321</u>	<u>22,184</u>
2	Tuition Fees		2013	2012
			£000	£000
	Fees from full-time students charged UK fees		1,997	1,927
	Fees from full-time students charged overseas fees		4,775	4,649
	Fees from students charged part-time fees		742	792
	Fees from students on short courses		1,445	1,306
	Fees from distance learning courses		5,273	4,668
			<u>14,232</u>	<u>13,342</u>
3	Research Grants and Contracts		2013	2012
			£000	£000
	UK research councils		8,615	6,687
	UK charities		17,653	17,696
	UK government departments and health authorities		14,341	12,818
	UK other		2,015	1,047
	EU Commission and other government bodies		4,715	5,219
	EU other		1,227	598
	Charities based outside the UK		18,474	20,122
	Industry and commerce outside the EU		1,081	1,911
	Other sources outside the EU		11,220	5,693
			<u>79,341</u>	<u>71,791</u>

Notes to the Financial Statements

4	Other Income	Notes	2013	2012
			£000	£000
	Research consultancy		701	1,030
	Other non-research grant income		<u>3,527</u>	<u>1,810</u>
			4,228	2,840
	Other services rendered		1,193	1,017
	Other general income		1,828	1,335
	Refectory		303	300
			<u>7,552</u>	<u>5,492</u>
5	Endowment and Investment Income			
			2013	2012
			£000	£000
	Transferred from endowments	23	225	200
	Income from unrestricted endowment asset investments	23	40	33
	Income from other investments		<u>363</u>	<u>183</u>
			<u>628</u>	<u>416</u>

Notes to the Financial Statements

6 Staff

	2013 £000	2012 £000
Staff Costs:		
Wages and salaries	48,982	45,755
Social security costs	3,954	3,719
Other pension costs (Note 32)	6,536	6,088
	<u>59,472</u>	<u>55,562</u>
Emoluments of the Director:	£000	£000
Professor Peter Piot		
Salary and benefits	281	278
Pension contribution to USS	36	35
Total emoluments	<u>317</u>	<u>313</u>

The emoluments of the Director are shown on the same basis as for other higher paid staff. The School's pension contributions in relation to the Director are paid at the same rate as for other academic staff.

Remuneration of other higher paid staff, excluding employer's pension contributions but including payments made on behalf of the NHS in respect of its contractual obligations to School staff under separate NHS contracts of employment and which are excluded from the School's Income and Expenditure Account.

	Number	Number
£100,000 - £109,999	7	4
£110,000 - £119,999	2	2
£120,000 - £129,999	4	2
£130,000 - £139,999	2	2
£140,000 - £149,999	-	2
£150,000 - £159,999	1	2
£160,000 - £169,999	1	1
£170,000 - £179,999	2	2
£180,000 - £189,999	-	1
£190,000 - £199,999	1	-
	<u>20</u>	<u>18</u>

Average staff numbers by category expressed as full-time equivalents:

	Number	Number
Teaching and Research staff in academic faculties	630	572
Support staff in academic faculties	202	210
Central services	219	187
Premises	26	23
Other	4	7
	<u>1,081</u>	<u>999</u>

Notes to the Financial Statements

	2013	2012
	£000	£000
7 Interest Payable		
Loans repayable wholly or partly in more than five years	816	853
Other interest	19	-
	<u>835</u>	<u>853</u>

8 Staff Costs and Other Operating Expenses

	Notes	2013			2012		
		£000 Total	£000 Staff	£000 Other	£000 Total	£000 Staff	£000 Other
Academic faculties:							
General funds		16,823	14,783	2,040	16,213	14,829	1,384
Projects:							
Research grants and contracts		71,335	30,923	40,412	64,824	28,601	36,223
Consultancy agreements		534	319	215	740	572	168
Other grants		3,527	1,534	1,993	1,602	741	861
		<u>75,396</u>	<u>32,776</u>	<u>42,620</u>	<u>67,166</u>	<u>29,914</u>	<u>37,252</u>
Total academic faculties' expenditure		<u>92,219</u>	<u>47,559</u>	<u>44,660</u>	<u>83,379</u>	<u>44,743</u>	<u>38,636</u>
Academic services	11	8,765	5,377	3,388	8,381	4,699	3,682
Administrative services	12	8,151	4,942	3,209	7,031	4,551	2,480
Maintenance of premises	13	4,896	844	4,052	4,533	841	3,692
Equipment and furniture		242	-	242	165	74	91
Refectory		343	259	84	383	223	160
Severance costs		318	189	129	176	171	5
General educational expenditure	14	1,288	219	1,069	1,216	100	1,116
Student and staff facilities		136	83	53	159	71	88
Other expenditure		482	-	482	2,304	89	2,215
Recoverable input VAT		18	-	18	(89)	-	(89)
		<u>116,858</u>	<u>59,472</u>	<u>57,386</u>	<u>107,638</u>	<u>55,562</u>	<u>52,076</u>

Notes to the Financial Statements

	2013	2012
	£000	£000
9 Taxation		
Current tax		
UK Corporation Tax of 20% on surplus for the year	-	1
Adjustment in respect of previous years	(1)	2
	<u>(1)</u>	<u>3</u>
Tax paid in year	<u>-</u>	<u>2</u>
	2013	2012
	£000	£000

10 London International Development Centre

Income	272	214
Expenditure	(272)	(214)
Net	<u>-</u>	<u>-</u>
Buildings at historic cost	2,960	2,960
Depreciation to date	(592)	(296)
Net book value at 31 July	<u>2,368</u>	<u>2,664</u>

The School is the lead college for the London International Development Centre (LIDC), which is a joint arrangement among five colleges of the University of London, located in the Bloomsbury area. As the arrangement does not create a separate legal entity, each of the participating colleges accounts for:

- the assets that it controls and the liabilities it incurs;
- the expenses that it incurs, and the share of income that it earns from the sale of goods or services which fall within the terms of the arrangement.

	2013	2012
	£000	£000
11 Academic Services		
Library	1,596	1,714
Network Support Team	2,290	1,694
Biological Services Unit	396	779
Electron Microscopy & Histopathology Unit	3	44
Supplies Unit	250	196
Safety	203	195
Teaching Support	3,638	3,403
Senior Management Team	3	6
Staff Development	210	229
Clinical Trials Support	176	121
	<u>8,765</u>	<u>8,381</u>

Notes to the Financial Statements

	2013	2012
	£000	£000
12 Administrative Services		
Director's Office	3,221	2,406
Registry	712	768
Research Grants, Contracts and Consultancies Office	1,479	1,184
Finance Office	837	797
Human Resources Office	994	685
Administrative computing system	313	743
School publications	25	68
External audit fee	60	55
Internal audit fee	83	61
Other professional fees	164	137
Unrealised foreign exchange surpluses	(114)	(308)
Non-premises insurance	377	435
	<u>8,151</u>	<u>7,031</u>
	2013	2012
	£000	£000
13 Maintenance of Premises		
Repairs and maintenance	1,827	1,742
Energy and water costs	1,146	886
Rates and premises insurance	409	393
Cleaning	836	875
Reception and security	678	637
	<u>4,896</u>	<u>4,533</u>
	2013	2012
	£000	£000
14 General Educational Expenditure		
School scholarships	419	678
Trust Fund scholarships and prizes	342	137
Examinations	70	69
Subscriptions	108	113
Student recruitment	114	104
University of London charges	111	97
Other	124	18
	<u>1,288</u>	<u>1,216</u>

Notes to the Financial Statements

15 Tangible Assets

	Freehold Land and Buildings £000	Leasehold Buildings £000	Equipment and Furniture £000	Assets in Progress £000	Total £000
Cost					
At 1 August	68,029	6,996	11,037	10,433	96,495
Additions at cost	414	28	746	-	1,188
Transferred on completion	10,423	-	-	(10,423)	-
Taken to expense	-	-	-	(10)	(10)
Disposals	(10)	-	(949)	-	(959)
	<u>78,856</u>	<u>7,024</u>	<u>10,834</u>	<u>-</u>	<u>96,714</u>
Depreciation					
At 1 August	13,449	1,292	9,593	-	24,334
Charge for year	3,001	156	780	-	3,937
Eliminated in respect of disposals	(10)	-	(949)	-	(959)
	<u>16,440</u>	<u>1,448</u>	<u>9,424</u>	<u>-</u>	<u>27,312</u>
Net Book Value					
At 31 July	<u>62,416</u>	<u>5,576</u>	<u>1,410</u>	<u>-</u>	<u>69,402</u>
At 1 August	<u>54,580</u>	<u>5,704</u>	<u>1,444</u>	<u>10,433</u>	<u>72,161</u>

- (a) The School occupies a range of freehold and leasehold properties in the Bloomsbury area of London. Its principal premises in Keppel St were originally funded by a charitable gift from the Rockefeller Foundation. Other properties, and later additions to the Keppel Street building, have been funded from various sources, including the HEFCE and its predecessor organisations.
- (b) The costs shown under "Assets in Progress" in 2012 relate to the upgrade of the laboratory facilities. They were transferred to Freehold Land and Buildings in 2013 when they were brought into use.

Notes to the Financial Statements

16 Fixed Asset Investments

	2013 £000	2012 £000
At 1 August	4,627	4,738
Revaluation	448	(111)
At 31 July	<u>5,075</u>	<u>4,627</u>
Represented by:		
Managed funds:		
Equities	2,753	2,069
Fixed interest	223	338
Other	1,399	1,520
Sub-total	<u>4,375</u>	<u>3,927</u>
Other property investment	700	700
	<u>5,075</u>	<u>4,627</u>

The property investment of £700,000 consists of a contribution made by the School towards the purchase of a house in London by the Director in April 2011. The School holds an equitable interest in the property under a Deed of Trust.

17 Endowment Asset Investments

See Note 23

	2013 £000	2012 £000
At 1 August	9,603	9,449
Additional funds invested	790	83
Increase/(decrease) in market value of investments	982	(260)
(Decrease)/increase in cash balances	(418)	331
At 31 July	<u>10,957</u>	<u>9,603</u>
Represented by:		
Managed funds:		
Equities	6,072	4,887
Fixed interest	493	798
Other	4,481	3,589
Sub-total	<u>11,046</u>	<u>9,274</u>
Cash balance (due by)/held by the School	(89)	329
	<u>10,957</u>	<u>9,603</u>

Notes to the Financial Statements

18 Debtors

	2013 £000	2012 £000
Amounts falling due within one year:		
Research expenditure recoverable	11,449	10,374
Trade debtors	6,000	5,401
Prepayments	2,660	2,101
Accrued income	1,470	5,872
	<u>21,579</u>	<u>23,748</u>

19 Current Asset Investments

	2013 £000	2012 £000
At 1 August	-	5,000
Investment in term deposit	5,000	(5,000)
At 31 July	<u>5,000</u>	<u>-</u>

The investment in 2013 consists of a twelve month term deposit with NatWest Bank, which matured in August 2013.

20 Creditors

	2013 £000	2012 £000
Amounts falling due within one year:		
Unsecured bank loans	419	408
Trade creditors and accruals	7,786	8,024
Social security and other taxation payable	1,238	1,114
Deferred income	5,431	3,470
Research grants received in advance	38,394	36,451
Other payments received in advance	909	2,352
	<u>54,177</u>	<u>51,819</u>

Notes to the Financial Statements

21 Creditors over one year

	2013	2012
	£000	£000
Analysis of unsecured bank loans:		
Due between one and two years	431	419
Due between two and five years	1,370	1,330
Due in five years or more	13,948	14,419
	<u>15,749</u>	<u>16,168</u>

The School's loan facilities consist of:

- unsecured term loan of £11 million, repayable quarterly in arrears by February 2038. Capital repayments began in February 2011. Interest is fixed at 5.16%. The loan is subject to an interest rate swap arrangement with a nominal value of £11 million.
- unsecured term loan of £6 million, repayable quarterly in arrears by February 2038. Capital repayments began in November 2011. Interest is fixed at 4.83%. The loan is subject to an interest rate swap arrangement with a nominal value of £6 million.

Notes to the Financial Statements

22 Deferred Capital Grants

	Funding Council £000	Other £000	Total £000
At 1 August			
Buildings	29,854	5,310	35,164
Equipment	388	361	749
Total	<u>30,242</u>	<u>5,671</u>	<u>35,913</u>
Grants Received			
Buildings	2,888	-	2,888
Equipment	-	250	250
Total	<u>2,888</u>	<u>250</u>	<u>3,138</u>
Released to Income and Expenditure Account			
Buildings	(1,606)	(124)	(1,730)
Equipment	(160)	(201)	(361)
Total	<u>(1,766)</u>	<u>(325)</u>	<u>(2,091)</u>
At 31 July			
Buildings	31,136	5,186	36,322
Equipment	228	410	638
Total	<u>31,364</u>	<u>5,596</u>	<u>36,960</u>

Notes to the Financial Statements

23 Endowments

See Notes 5 and 17

	Permanent Restricted £000	Permanent Unrestricted £000	Expendable Restricted £000	Total £000
At 1 August				
Capital	7,190	1,479	277	8,946
Accumulated income	657	-	-	657
	<u>7,847</u>	<u>1,479</u>	<u>277</u>	<u>9,603</u>
New endowment capital and cash	-	-	372	372
Investment income	225	40	-	265
Expenditure	-	(40)	(225)	(265)
Transfer of income from permanent to expendable	(225)	-	225	-
Transfer of brought forward permanent accumulated income to expendable	(657)	-	657	-
Increase in market value of investments	813	169	-	982
At 31 July	<u>8,003</u>	<u>1,648</u>	<u>1,306</u>	<u>10,957</u>
Represented by:				
Capital	<u>8,003</u>	<u>1,648</u>	<u>1,306</u>	<u>10,957</u>
Representing:				
Scholarship funds	2,093	-	825	2,918
Prize funds	99	-	56	155
Library funds	248	-	44	292
Brass Blacker Chair	2,735	-	52	2,787
Other teaching and research funds	2,828	-	271	3,099
Other funds	-	1,648	58	1,706
	<u>8,003</u>	<u>1,648</u>	<u>1,306</u>	<u>10,957</u>

24 Income and Expenditure Account

	2013 £000	2012 £000
At 1 August	25,584	23,776
Surplus retained for the year	3,445	1,808
At 31 July	<u>29,029</u>	<u>25,584</u>

Notes to the Financial Statements

25 Investment Reserve

	2013	2012
	£000	£000
At 1 August	1,342	1,453
Revaluation in year	448	(111)
At 31 July	<u>1,790</u>	<u>1,342</u>

This is the balance of the revaluation of the Investments shown in Note 16.

26 Reconciliation of Operating Surplus to Cash Flow from Operating Activities

	2013	2012
	£000	£000
Surplus on continuing operations after depreciation of assets	3,444	1,865
Depreciation	3,937	2,869
Deferred capital grants released to income	(2,091)	(1,477)
Investment income	(628)	(416)
Interest payable	835	853
Decrease/(increase) in debtors	2,169	(4,013)
Increase/(decrease) in creditors under one year	2,348	(6,183)
Cash flow from operating activities	<u>10,014</u>	<u>(6,501)</u>

27 Returns on Investments and Servicing of Finance

	2013	2012
	£000	£000
Income from endowments	265	233
Income from other investments	363	183
Interest paid	(835)	(853)
Cash flow from returns on investments and servicing of finance	<u>(207)</u>	<u>(437)</u>

Notes to the Financial Statements

28 Capital Expenditure and Financial Investment

	2013 £000	2012 £000
Payments to acquire tangible assets	(1,178)	706
New endowments received	372	360
Endowment funds invested	(790)	(83)
Disposal of fixed assets	-	9
Deferred capital grants net of disposals	3,138	1,233
Cash flow from capital expenditure and financial investment	<u>1,542</u>	<u>2,225</u>

29 Management of Liquid Resources

	2013 £000	2012 £000
(Additions)/disposals to short term deposits	(5,000)	5,000
Cash flow from management of liquid resources	<u>(5,000)</u>	<u>5,000</u>

30 Financing

	2013 £000	2012 £000
Repayments of amounts borrowed	(408)	(341)
Cash flow from financing	<u>(408)</u>	<u>(341)</u>

31 Analysis of Changes in Net Funds

	At 1 August 2012 £000	Cash Flows £000	Other changes £000	At 31 July 2013 £000
Cash at bank and in hand	30,290	6,359	-	36,649
Endowment assets (Note 17)	329	(418)	-	(89)
	<u>30,619</u>	<u>5,941</u>	<u>-</u>	<u>36,560</u>
Current asset investments	-	5,000	-	5,000
	<u>30,619</u>	<u>10,941</u>	<u>-</u>	<u>41,560</u>
Debts due within one year	(408)	408	(419)	(419)
Debts due after one year	(16,168)	-	419	(15,749)
	<u>14,043</u>	<u>11,349</u>	<u>-</u>	<u>25,392</u>

Notes to the Financial Statements

32 Pension Schemes

The School participates in three pension schemes, the Universities Superannuation Scheme (USS), the Superannuation Arrangements of the University of London (SAUL) and the National Health Service Pension Scheme.

(a) Universities Superannuation Scheme

The School participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

The appointment of directors to the board of the trustee is determined by the trustee company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; and a minimum of three and a maximum of five are independent directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

The latest triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out regular reviews of the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2013 are also included in this note.

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

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.1% per annum, salary increases would be 4.4% per annum (with short-term general pay growth at 3.65% per annum and an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.4% per annum for 3 years following the valuation then 2.6% per annum thereafter.

Standard mortality tables were used as follows:

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

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further improvements in mortality rates the CMI 2009 projections with a 1.25% pa long term rate were also adopted. The assumed life expectations on retirement at age 65 are:

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

At the valuation date, the value of the assets of the scheme was £32,433.5million and the value of the scheme's technical provisions was £35,343.7million indicating a shortfall of £2,910.2million. The assets therefore were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 93% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 57% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using a AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82%.

Notes to the Financial Statements

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

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions but the allowance for promotional salary increases was not as high. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

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

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

Since the valuation effective date there have been a number of changes to the benefits provided by the scheme although these became effective from October 2011. These include:

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

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

Flexible Retirement - flexible retirement options were introduced.

Member contributions increased - contributions were uplifted to 7.5% p.a. and 6.5% p.a. for FS Section members and CRB Section members respectively.

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

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

The actuary has estimated that the funding level as at 31 March 2013 under the scheme specific funding regime has fallen from 92% to 77%. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions. These are sighted as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2013 estimation.

On the FRS17 basis, using an AA bond discount rate of 4.9% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2013 was 68%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 55%.

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

Notes to the Financial Statements

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

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

The trustees believe that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set by the trustee are designed to give the fund a significant exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that, putting the issue of the USS fund’s size and scale to one side for a moment, it might be theoretically possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the sponsoring employers would be willing to make and able to make, it is necessary and appropriate for the trustee to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund’s liabilities. Before deciding what degree of investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, its external investment team, its investment consultant and the scheme actuary, and importantly considers the ability of the sponsoring employers to support the scheme if the investment strategy does not deliver the expected returns.

The positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities, and the scheme actuary has confirmed that this is likely to remain the position for the next ten years or more. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and most critically the ability of the employers to provide additional support to the scheme should additional contributions be required, enables it to take a longer-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate. However, the trustee is mindful of the difficult economic climate which exists for defined benefit pension schemes currently, and the need to be clear about the responses that are available should the deficits persist and a revised recovery plan becomes necessary following the next actuarial valuation of the scheme as at March 2014. The trustee is making preparations ahead of the next valuation to compile a formal financial management plan, which will bring together – in an integrated form – the various funding strands of covenant strength, investment strategy and funding assumptions, in line with the latest guidance from the Pensions Regulator.

At 31 March 2013, USS had over 148,000 active members and the School had 871 active members participating in the scheme.

The contribution rate payable by the School was 16% of pensionable salaries.

(b) The Superannuation Arrangements of the University of London (SAUL)

The School participates in a centralised defined benefit scheme for all qualified employees with the assets held in separate Trustee-administered funds. The School has now adopted FRS17 for accounting for pension costs. It is not possible to identify the School’s share of the underlying assets and liabilities of SAUL. Therefore contributions are accounted for as if SAUL were a defined contribution scheme and pension costs are based on the amounts actually paid (i.e. cash amounts) in accordance with paragraphs 8 – 12 of FRS17.

Notes to the Financial Statements

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

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

* an additional allowance is made for promotional Salary increases

The actuarial valuation applies to SAUL as a whole and does not identify surpluses or deficits applicable to individual employers. As a whole, the market value of SAUL’s assets was £1,506 million representing 95% of the liability for benefits after allowing for expected future increases in salaries.

Based on the strength of the Employer covenant and the Trustee’s long-term investment strategy, the Trustee and the Employers agreed to maintain Employer and Member contributions at 13% of Salaries and 6% of Salaries respectively following the valuation. The above rates will be reviewed when the results of the next formal valuation (as at 31 March 2014) are known.

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

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

At 31 March 2013, the School had 157 active members participating in the scheme.

(c) The National Health Service (NHS) Pension Scheme

The NHS Scheme is an unfunded defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State in England and Wales. As a consequence it is not possible for the School to identify its share of the underlying scheme assets and liabilities.

The School therefore accounts for its pension costs in respect of the scheme on a defined contribution basis, as permitted by FRS 17 Retirement Benefits, thereby charging in its financial statements the contributions payable to the scheme for the year. The NHS Pension Scheme is funded centrally by the Treasury on a current cost basis. At 31 March 2013, the School had 53 active members participating in the Scheme.

(d) The total pension costs for all three schemes, which were charged to the income and expenditure account, was £6,536,000 (2012: £6,088,000).

Notes to the Financial Statements

33 Related Party Transactions

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

Five members of Council were paid a total of £1.1k in travel and accomodation expenses for the year ended 31 July 2013 (2012: one member was paid a total of £1.3k in travel and subsistence expenses and £1k in subsistence expenses was incurred on behalf of all members of the Council). No payments were made to members of Council for serving as trustees and there were no waivers of such payments.

34 Access to Learning Fund

	2013 £000	2012 £000
Grant allocation received	6	10
Grants disbursed to students	(6)	(9)
Balance to be refunded to HEFCE	-	1

These Funding Council grants are available solely for students: the School acts only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

35 Capital Commitments

There were no commitments contracted for or approved but not contracted for at 31 July 2013 (2012: Nil).