

LONDON  
SCHOOL *of*  
HYGIENE  
& TROPICAL  
MEDICINE



**Financial  
Statements**  
2011-12

**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 K Gill, BMMS, MRCP, RAF, Chair, Students' Representative Council (from 26.10.11)

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**

Professor D Harper CBE BSc PhD FFPH FSB (to 31.03.12)

Dr S Tanner BM MSc MRCP FFPH

## **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

## **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

\* Chairman of Audit Committee to 31.07.12

\*\* Chairman of Audit Committee from 1.08.12

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## **Secretary**

The Acting Secretary & Registrar: Mr R Benson

# Financial Statements for the Year Ended 31 July 2012

## 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 Accounts.....	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 2011-12, 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. The past year saw 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 2011-12 from the Department of Health, the Department of International Development, the MRC, Wellcome Trust and others. The development of our teaching programme also continued, including the launch of a new distance learning MSc course in Global Health Policy.

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. During 2011-12, the School's governing Council approved a revised Strategy which 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
- increased 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 review.

## Financial highlights and financial commentary

These financial statements report the results of the School's activities for the year ended 31 July 2012 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 & Expenditure for 2011-12 are summarised in the following table:

# Treasurer's Report

## Income & Expenditure for 2011-12

	2012 £M	2011 £M	% of income in 2011-12	% of income in 2010-11	% incr/ (decr) over prior year
Income	113.23	107.40			5%
Expenditure	(111.36)	(106.53)			5%
<b>Operating surplus</b>	<b>1.87</b>	<b>0.86</b>	1.7%	0.8%	117%
Exceptional item	-	(1.19)			
Deficit on disposal of fixed assets	-	(0.73)			
Corporation tax	-	-			
Transfer (to)/ from accumulated income within specific endowments	(0.06)	0.04			
Surplus/ (deficit) for the year	1.81	(1.02)			

The School's operating surplus is below the benchmark figure of 3% of income 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 (£19.9m, or 28% of total research income for the year) was passed on to our research partners in the UK and overseas.

It should also be noted in relation to the refurbishment of some of the School's high specification laboratories, that the operating surplus for the year is net of expenditure of £604K incurred in 2010-11 for building work which did not resolve the problems which it was intended to address. In addition, a further £775K of costs were charged directly to the I&E in respect of remedial work in 2011-12 together with dislocation costs of £622K arising from the closure of the laboratories during the refurbishment work.

Notwithstanding these two factors, 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 £3m with the aim of ensuring that the School generates sufficient surpluses for investment. A detailed breakdown of sources of income and expenditure is shown in the Notes to the Accounts and comments on the principal factors affecting the surplus in 2011-12 are set out below.

## Highlights of income and expenditure

### Income

	2012 £M	2011 £M	% of income in 2011-12	% of income in 2010-11	% incr/ (decr) over prior year
HEFCE grant	22.18	21.75	19.6%	20.3%	2%
Tuition fees	13.34	12.21	11.8%	11.4%	9%
Research income	71.79	67.79	63.4%	63.1%	6%
Other income	5.49	5.19	4.8%	4.8%	6%
Investments	0.42	0.46	0.4%	0.4%	(9%)
<b>Total income</b>	<b>113.23</b>	<b>107.40</b>	n/a	n/a	5%

# Treasurer's Report

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) in 2013-14, and the outcome of the REF is one of the key risks identified in the School's strategic risk register. Maintaining the excellent result achieved in the previous Research Assessment Exercise in 2008 will be a challenge, but work on the School's submissions will continue throughout the next year and the greater emphasis to be given to research impact in the REF should provide an opportunity to highlight the strength of our applied research and case studies where our work has been translated into policy and practice.

Tuition fee income remained satisfactory in 2011-12 but initial recruitment figures for 2012-13 show some evidence of a decline in overseas students taking up places. The following table gives an analysis of the number of London based and distance learning students:

London based taught course students	617
London based research degree students	419
Distance Learning students	2,669

There are a number of current factors which increase the risk of a decline in future student numbers, particularly overseas student numbers, among them the economic situation in the UK and overseas, visa restrictions and adverse publicity surrounding student visa problems. These factors apply to all UK universities, but the nature of the School's overseas student profile makes us particularly sensitive to factors which affect students from low and middle income countries. The School is taking action to mitigate this risk as far as possible, and is working with relevant partners in the sector to lobby Government and to highlight the potential impact of current visa regulations.

As in previous years, the School is conducting a survey of students who accepted places for 2012-13 but either did not, or were unable to, take them up and will consider any further action once responses have been received. It is unclear at this stage how far any reduction in recruitment to London-based courses will be off-set by further expansion of our already successful distance learning programme.

## Expenditure

	2012 £M	2011 £M	% of operating costs in 2011-12	% of operating costs in 2010-11	% incr/ (decr) over prior year
Staff costs	55.56	53.57	51.6%	52.0%	4%
Other operating expenditure	52.08	49.36	48.4%	48.0%	6%
Total operating costs	<b>107.64</b>	<b>102.93</b>	100.0%	100.0%	5%
Interest payable	0.85	0.60			
Depreciation	2.87	3.00			
Exceptional item	-	1.19			
Disposal of Fixed Asset	-	0.73			
Total expenditure before Corporation Tax and transfer from/ (to) endowments	<b>111.36</b>	<b>108.45</b>			

# Treasurer's Report

The most significant factor affecting the surplus for 2011-12 is expenditure relating to a major refurbishment of laboratory facilities as detailed above.

Research activities resumed in the laboratories in September 2012. The project, which involved refurbishing high specification laboratories, proved to be difficult and protracted and the School's Estates Sub-Committee is now undertaking a full review of the project. The Planning & Finance Committee has approved a revised project management framework which will be applied to future capital projects in order to ensure that we manage financial and other risks effectively.

The increase in interest payable reflected the first full year's charge of interest on the School's long term loans. Note 7 to the Financial Statements provides further details.

## Highlights of movements in assets and liabilities

There are two principal areas which require comment in 2011-12, the movements in "Assets in Progress" in Note 15 to the Balance Sheet, and the outcome of the review of endowments. With regard to capital expenditure, £367K of equipment expenditure and £369K of accounting and payroll software were treated as capital expenditure during the year. Note 15 to the Accounts also shows that, of the charge to the Income & Expenditure Account for building costs mentioned above, £604K is in respect of costs relating to prior years which cannot be treated as capital additions under FRS 15. The further reduction of £838K shown in Note 15 relates to the reversal of the unused balance of the provision made in 2010-11 for contractual claims, and does not impact the I&E.

The School is reviewing its project management processes and, as explained in more detail under "Future Developments" below, is also considering the extent to which further enhancements of high specification laboratories are practical within the constraints of the Keppel Street site, and whether collaborations with other institutions might provide a better result.

During the year, the School concluded a review of endowment funds by receiving approval from the Charities Commission and HEFCE for a scheme of amalgamation which has reduced the number of permanent, restricted endowment funds from 50 to 9. This will release unspent income from prior years for expenditure on academic priorities, including scholarships and research projects. In common with most universities, the School continues to suffer relatively poor returns on both short term and long term investments, with the emphasis being on safety, particularly with short term cash surpluses. Since the year end, the School has taken out a £5M twelve month deposit with Royal Bank of Scotland. Other short term surplus cash is held in a mixture of short dated deposits or Treasury bills.

## 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.

# Treasurer's Report

Examples include:

- the School's Cancer Research UK's Cancer Survival Group carry out research into trends and inequalities in cancer survival and health policy applications of cancer survival research, and also runs an annual short course in cancer survival;
- the School's Environmental Health Group is a leader in research and operational support for hygiene behaviour change and its members have extensive experience in the implementation and management of environmental health interventions in developing countries. The Group is currently conducting a randomised controlled study into basic latrines in Orissa, India. The Hygiene Centre focuses its research on behaviour change, and has conducted a recent study into the prevalence and effectiveness of handwashing in the UK in the context of the spread of communicable disease.
- School staff provide significant input into the management, running and diagnostic services provided by the Malaria Reference Laboratory (MRL). School staff also have a role in the training of laboratory scientists and medical staff from NHS haematology laboratories which is part of the remit of the MRL in its work as the national reference laboratory.

In the UK 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 one hundred School staff living and working in low and middle-income countries. The quality and relevance of this collaborative research are illustrated by the School's prominent position in rankings which assess impact and collaboration, such as the Leiden 2011-12 international university ranking, where the School is 33<sup>rd</sup> in the world - and 2nd in the UK after only the University of Cambridge - on the basis of citations, and first in the world for the share of research papers published with collaborators.

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 23 work experience students were able to visit the School in 2011-12 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.

## Future Developments

The School is currently budgeting for a surplus of approximately £1.3m in 2012-13, with annual surpluses 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, in a difficult economic climate projected surpluses are lower than originally forecast and it will take longer to achieve the £3m pa target set by the Planning and Finance Committee.

Managing these financial risks will be one of the key challenges for the School's Senior Leadership Team and Council over the next 3-5 years, within the framework provided by the Strategy. We will continue - and where possible accelerate - existing plans to developing and diversifying 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.



# Treasurer's Report

The School introduced significant increases in tuition fees for new students from the UK and EU registering in 2012-13, which were intended to off-set anticipated cuts in funding from the UK Government. Fees for overseas students were increased only in line with inflation. As noted earlier, however, initial figures for 2012-13 indicate that there has been a reduction in the number of international students registering for London-based courses and we – like many of others in higher education – have serious concerns that the Government's 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.

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. However, it is nevertheless a concern that the Government has yet to set out any clear policy regarding postgraduate provision, and appears to have done limited work to assess the potential impact that changes at undergraduate level may have on both funding and student demand for postgraduate study.

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 the new course in Global Health Policy launched at the start of 2011-12.

Continued investment and innovation are essential if the School is to maintain our 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 we can capitalise on the significant investment that we have made in distance learning materials including, for example, drawing together existing materials to offer new short courses which meet the needs of particular professional groups. Support for these developments has in part been funded from investment of remaining funds from the Gates Global Health Award which the School received in 2009.

Alongside these developments in distance learning, the School will also need to keep our programme of face-to-face short courses under review. Again, this is an area where there is an opportunity to draw together existing expertise to more effectively meet the needs of students and employers. It is also an area that has the potential to generate additional income to support the Strategy.

Research grants and contracts will remain the School's largest source of income although, as noted previously, it is unclear whether the current volume of activity will be maintained. In an increasingly competitive environment, maintaining and 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 Comprehensive Spending Review.

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 Strategy, the School may nevertheless need to take an explicit 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 our preparations for the REF, due to take place in the Autumn of 2013.

# Treasurer's Report

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. In particular, we will look to strengthen our relationships with the private sector and industry where this can advance scientific knowledge and enable the School to capitalise on our intellectual property to secure benefits for the health of populations. The School has recently established a company to provide a vehicle for future developments.

During the past year, the School has implemented a major review of the effectiveness of parts of our administration and central services. The intention is 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 Institute of Pathogen Research (BIPR), building on the institutions' complementary expertise in infectious disease research. Alongside the scientific rationale for BIPR, 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 joint working groups have been established to develop the business case for BIPR and to identify opportunities for further development.

The creation of new laboratory space would enable the gradual reduction of laboratory facilities in the Keppel Street building. The School's Estates Strategy identifies the need for significant investment to refurbish the infrastructure of Keppel Street, but the scope and timing of works is dependent on decisions regarding the joint laboratory building. The budget for 2012-13 and our financial forecasts nevertheless include investment of approximately £500K pa to address priority infrastructure works, and to begin 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 a decision on the joint laboratory building has been taken and new facilities are available.

The financial forecast include provision of £15M to support the first phase of this investment in laboratories and infrastructure, up to the end of 2015-16. Attracting support for BIPR is the top priority for the School's fundraising programme, but it will be essential to ensure that secure funding is in place before we commit to such significant capital investment and the Planning & Finance Committee is currently assessing potential options.

In brief, there remains a real risk that the School's funding will be adversely affected by reductions in public expenditure 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 BIPR – 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 SLT 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

20 November 2012

# 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 Chairmen (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 during the year 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. During 2011-12 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 provide an annual report which includes an opinion on the School's internal controls. The report for 2011-12 concludes that, in the internal auditors' opinion, the School maintained adequately designed and effective arrangements for internal control and governance. The internal auditors gave a similar opinion on the School's value for money arrangements, but an opinion of limited assurance with regard to risk management. This was due to the auditors' assessment that the School had not progressed in its level of risk management maturity over the previous year.

The School is working to move from the internal audit assessment of being "risk aware" to one of being "risk defined". While the Audit Committee has responsibility for advising the Council on the effectiveness of the School's risk management framework and procedures, the Senior Leadership Team is responsible for managing risk, and for embedding risk management across the School. A revised Strategic Risk Register was put in place in May 2012, and high level "red" and "amber" risks are now monitored by the Senior Leadership Team on a monthly basis. Risk is also a standing item at all meetings of Council and Risk Registers are in place for all faculties and central services which assess the likelihood and impact of operational risks. Progress has been made during the year under review and up to the date of approval of the Annual Report and Accounts. Work will continue to strengthen risk management further during 2012-13, and the School is confident both that it has a better structure for managing risk than previously and that this will be implemented fully over the next twelve months.

The Audit Committee is satisfied that the progress made during the year under review, together with implementation of further agreed actions, will address the recommendations made by the internal auditors and enable the School to achieve an opinion of satisfactory assurance in 2013.

The enhanced arrangements put in place to embed risk management provide an ongoing process for identifying, evaluating and managing the significant risks faced by the School. 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).

# Corporate Governance

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

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 & 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, one of whom is the Chair. 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.

The Planning & 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 response 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 2012 has been governed by this approach. The Committee reviews the School's Annual Financial Statements together with the accounting policies. 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 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 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 Acting Secretary & Registrar.

Details of related party transactions involving members of Council or senior officers are disclosed in Note 32 to the Accounts. The lay members of Council do not receive any payment for the work they do for the School, apart from the reimbursement of expenses.

## LSHTM 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.
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.

# Corporate Governance

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 Plan, 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)

## **Membership and Committees**

12. To appoint external members to Council, including a Chairman, Deputy Chairman and Honorary Treasurer (who shall be Chairman of Planning & 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.

# Corporate Governance

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 & 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 & Finance Committee, on behalf of the Council, seeks to ensure that:
  - (i) suitable accounting policies are selected and then applied consistently;
  - (ii) judgements and estimates are made that are reasonable and prudent;
  - (iii) applicable accounting standards and statements of recommended practice have been followed, subject to any material departures disclosed and explained in the Financial Statements;
  - (iv) 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
  - (v) The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the School and enable it to ensure that the financial statements are prepared in accordance with the School's Charter and Statute, the Statement of Recommended Practice: Accounting for Further and Higher Education, and United Kingdom Generally Accepted Accounting Practice. In addition, within the terms and conditions of the Financial Memorandum agreed between the HEFCE and the Council, the Council, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view, in accordance with UK GAAP, of the state of affairs of the School and of the surplus or deficit and cash flows for that year.
3. On behalf of the Council, the Planning & 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 2012 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 2012 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.



## W Southwood

For and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL



November 2012

An audit does not provide assurances on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the Council but no control procedures can provide absolute assurance in this area.

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

# 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 & 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 & 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 & 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.

## 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 Accounts).

# Statement of Principal Accounting Policies

## 6. Tangible fixed assets

### *Freehold 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 25 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.

### *Fixtures and fittings*

Fixtures and fittings and temporary buildings are depreciated over their expected useful economic life to the School of between 5 and 10 years.

### *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; and
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.

## 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 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.

# Statement of Principal Accounting Policies

## 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:

1. 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.
2. 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.
3. 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 or 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.

## 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 company

The Financial Statements refer solely to the activities of The London School of Hygiene & Tropical Medicine. The School has an investment of £2 in a wholly owned subsidiary, Salus Limited, which has been dormant throughout the year.

# Statement of Principal Accounting Policies

## 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).

# Income and Expenditure Account for the Year ended 31 July 2012

	Notes	2012 £000	2011 £000
<b>INCOME</b>			
Funding council grants	1	22,184	21,754
Tuition fees	2	13,342	12,207
Research grants and contracts	3	71,791	67,785
Other income	4	5,492	5,188
Endowment and investment income	5	416	461
<b>Total income</b>		<b>113,225</b>	<b>107,395</b>
<b>EXPENDITURE</b>			
Staff costs	6	55,562	53,567
Other operating expenses	8	52,076	49,363
Depreciation	15	2,869	2,997
Interest payable	7	853	605
<b>Total expenditure</b>		<b>111,360</b>	<b>106,532</b>
<b>Operating surplus after depreciation of tangible fixed assets at cost and before exceptional item</b>			
		<b>1,865</b>	<b>863</b>
Exceptional item - termination of property lease		-	(1,193)
<b>Operating surplus/ (deficit) before disposal of fixed assets</b>		<b>1,865</b>	<b>(330)</b>
Deficit on disposal of fixed assets		-	(730)
Surplus/ (deficit) after exceptional item and disposal of fixed assets		1,865	(1,060)
Corporation tax	9	(3)	-
Surplus/ (deficit) after Corporation tax		1,862	(1,060)
Transfer (to)/ from accumulated income within restricted endowments	23	(54)	37
<b>Surplus/ (deficit) for the year retained within general reserves</b>	<b>24</b>	<b>1,808</b>	<b>(1,023)</b>

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

# Statement of Total Recognised Gains and Losses for the Year ended 31 July 2012

	Notes	2012 £000	2011 £000
Surplus/ (deficit) on continuing operations after depreciation of assets at cost and before disposal of fixed assets.		1,862	(330)
Deficit on disposal of fixed assets.		-	(730)
(Decrease)/ increase in value of fixed asset investments chargeable to investment reserve	16	(111)	265
(Decrease)/ increase in value of endowment asset investments	17	(260)	622
New endowments	23	360	2,424
<b>Total recognised gains for the year</b>		<b>1,851</b>	<b>2,251</b>
<b>Reconciliation</b>			
Opening reserves and endowments		34,678	32,427
Total recognised gains for the year		1,851	2,251
Closing reserves and endowments		36,529	34,678

# Balance Sheet as at 31 July 2012

	Notes	2012 £000	2011 £000
<b>Fixed Assets</b>			
Tangible assets	15	72,161	75,745
Investments	16	4,627	4,738
		<u>76,788</u>	<u>80,483</u>
<b>Endowment Asset Investments</b>	17	<u>9,603</u>	<u>9,449</u>
<b>Current Assets</b>			
Debtors	18	23,748	19,735
Investments	19	-	5,000
Cash at bank and in hand		30,290	30,677
		<u>54,038</u>	<u>55,412</u>
<b>Creditors:</b> amounts falling due within one year	20	(51,819)	(57,933)
<b>Net Current Assets/ (Liabilities)</b>		<u>2,219</u>	<u>(2,521)</u>
<b>Creditors:</b> amounts falling due after more than one year	21	(16,168)	(16,576)
<b>NET ASSETS</b>		<u>72,442</u>	<u>70,835</u>
<b>Represented by:</b>			
<b>Deferred Capital Grants</b>	22	<u>35,913</u>	<u>36,157</u>
<b>Endowments</b>			
Restricted permanent funds	23	7,847	7,936
Restricted expendable funds	23	277	-
Unrestricted permanent funds	23	1,479	1,513
		<u>9,603</u>	<u>9,449</u>
<b>Reserves</b>			
Income and expenditure account	24	25,584	23,776
Investment Reserve	25	1,342	1,453
		<u>26,926</u>	<u>25,229</u>
<b>TOTAL</b>		<u>72,442</u>	<u>70,835</u>

The Financial Statements on pages 16 to 42 were approved by the Council on 20 November 2012 and signed on its behalf by



Professor Baron Peter Piot  
Director



Sir Tim Lankester  
Chairman, Council



# Cash Flow Statement

	Notes	2012 £000	2011 £000
Net cash (outflow)/ inflow from operating activities	26	(6,501)	6,786
Returns on investments and servicing of finance	27	(437)	(144)
Taxation	9	(2)	-
Capital expenditure and financial investment	28	2,225	(4,507)
Management of liquid resources	29	5,000	(5,000)
Financing	30	(341)	(83)
<b>Decrease in cash in the year</b>	<b>31</b>	<b>(56)</b>	<b>(2,948)</b>

## Reconciliation of Net Cash Flow to Movement in Net Funds

		2012 £000	2011 £000
Decrease in cash in the year		(56)	(2,948)
(Decrease)/ increase in short term deposits	29	(5,000)	5,000
Decrease in debt		341	83
<b>Change in net funds</b>		<b>(4,715)</b>	<b>2,135</b>
Net funds at 1 August		18,758	16,623
<b>Net funds at 31 July</b>	<b>31</b>	<b>14,043</b>	<b>18,758</b>

# Notes to the Accounts

## 1 Funding Council Grants

*Higher Education Funding Council for England*

	Notes	2012 £000	2011 £000
Recurrent grants		21,002	20,089
Specific grants		94	541
Release of deferred capital grants			
Buildings	22	842	842
Equipment	22	246	282
		<u>22,184</u>	<u>21,754</u>

## 2 Tuition Fees

	2012 £000	2011 £000
Fees from full-time students charged UK fees	1,893	1,816
Fees from full-time students charged overseas fees	4,649	4,519
Fees from students charged part-time fees	792	740
Research training support grants	34	30
Fees from students on short courses	1,306	1,259
Fees from distance learning courses	4,668	3,843
	<u>13,342</u>	<u>12,207</u>

## 3 Research Grants and Contracts

	2012 £000	2011 £000
UK research councils	6,687	6,627
UK charities	17,696	15,768
UK government departments and health authorities	12,818	10,881
UK other	1,047	1,462
EU Commission and other government bodies	5,219	5,487
EU other	598	538
Charities based outside the UK	20,122	19,343
Industry and commerce outside the EU	1,911	2,934
Other sources outside the EU	5,693	4,745
	<u>71,791</u>	<u>67,785</u>

# Notes to the Accounts

4	Other Income	Notes	2012	2011
			£000	£000
	Research consultancy		1,030	999
	Other non-research grant income		1,810	415
			<u>2,840</u>	<u>1,414</u>
	Other services rendered		1,017	1,670
	Other general income		1,335	1,816
	Refectory		300	288
			<u>5,492</u>	<u>5,188</u>
5	Endowment and Investment Income	Notes	2012	2011
			£000	£000
	Transferred from restricted endowments	23	200	206
	Income from unrestricted endowment asset investments	23	33	37
	Income from other investments		183	218
			<u>416</u>	<u>461</u>

# Notes to the Accounts

## 6 Staff

	2012 £000	2011 £000
Staff Costs:		
Wages and salaries	45,755	44,034
Social security costs	3,719	3,499
Other pension costs (Note 32)	6,088	6,034
	<b>55,562</b>	<b>53,567</b>
Emoluments of the Director:	<b>£000</b>	<b>£000</b>
<b>Professor Peter Piot</b>		
Salary and benefits	278	287
Pension contribution to USS	35	30
	<b>313</b>	<b>317</b>
<b>Professor A P Haines</b>		
Salary	-	42
Pension contribution to NHSPS	-	6
	<b>-</b>	<b>48</b>
<b>Total emoluments</b>	<b>313</b>	<b>365</b>

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	4	5
£110,000 - £119,999	2	4
£120,000 - £129,999	2	2
£130,000 - £139,999	2	2
£140,000 - £149,999	2	2
£150,000 - £159,999	2	-
£160,000 - £169,999	1	2
£170,000 - £179,999	2	3
£180,000 - £189,999	1	1
	<b>18</b>	<b>21</b>

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

	Number	Number
Teaching and Research staff in academic departments	572	549
Support staff in academic departments	210	201
Academic services	97	95
Administration	90	88
Premises	23	23
Other	7	4
	<b>999</b>	<b>960</b>

# Notes to the Accounts

## 7 Interest

	2012 £000	2011 £000
Loans wholly repayable within five years	-	40
Loans repayable wholly or partly in more than five years	853	565
	<b>853</b>	<b>605</b>

## 8 Staff Costs and Other Operating Expenses

	Notes	2012			2011		
		£000 Total	£000 Staff	£000 Other	£000 Total	£000 Staff	£000 Other
Academic Departments:							
General funds		16,213	14,829	1,384	17,335	15,503	1,832
Projects:							
Research grants and contracts		64,824	28,601	36,223	60,642	26,798	33,844
Consultancy agreements		740	572	168	657	545	112
Other grants		1,602	741	861	263	176	87
		<b>67,166</b>	<b>29,914</b>	<b>37,252</b>	<b>61,562</b>	<b>27,519</b>	<b>34,043</b>
Total departmental expenditure		<b>83,379</b>	<b>44,743</b>	<b>38,636</b>	<b>78,897</b>	<b>43,022</b>	<b>35,875</b>
Academic services	11	8,381	4,699	3,682	8,441	4,643	3,798
Administrative services	12	7,031	4,551	2,480	7,019	4,406	2,613
Maintenance of premises	13	4,533	841	3,692	5,783	866	4,917
Operating leases (rent)		-	-	-	362	-	362
Equipment and furniture		165	74	91	386	-	386
Refectory		383	223	160	359	186	173
Severance costs		176	171	5	294	294	-
General educational expenditure	14	1,216	100	1,116	1,211	100	1,111
Student and staff facilities		159	71	88	130	49	81
Other expenditure		2,304	89	2,215	131	1	130
Recoverable input VAT		(89)	-	(89)	(83)	-	(83)
		<b>107,638</b>	<b>55,562</b>	<b>52,076</b>	<b>102,930</b>	<b>53,567</b>	<b>49,363</b>

# Notes to the Accounts

	2012 £000	2011 £000
<b>9 Taxation</b>		
Current tax		
UK Corporation Tax of 20% on profit for the year	1	-
Adjustment in respect of previous years	2	-
	<u>3</u>	<u>-</u>
Tax paid in year	<u>2</u>	<u>-</u>

	2012 £000	2011 £000
<b>10 London International Development Centre</b>		
Income from HEFCE	-	137
Other income	214	103
Expenditure	(214)	(240)
Net	<u>-</u>	<u>-</u>
Buildings at historic cost	2,960	2,960
Depreciation to date	(296)	(237)
Net book value at 31 July	<u>2,664</u>	<u>2,723</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.

	2012 £000	2011 £000
<b>11 Academic Services</b>		
Library	1,714	1,493
Network Support Team	1,694	1,643
Biological Services Unit	779	810
Electron Microscopy & Histopathology Unit	44	54
Supplies Unit	196	195
Safety	195	197
Teaching Support	3,403	3,576
Senior Management Team	6	7
Alumni Office	-	92
Staff Development	229	277
Clinical Trials Support	121	97
	<u>8,381</u>	<u>8,441</u>

# Notes to the Accounts

	2012 £000	2011 £000
<b>12 Administrative Services</b>		
Director's Office	2,050	1,504
Secretary's Office	356	382
Registry	768	675
Research Grants, Contracts and Consultancies Office	1,184	1,328
Finance Office	797	723
Personnel Office	685	643
Administrative computing system	743	374
School publications	68	75
External audit fee	55	47
Internal audit fee	61	94
Other professional fees	137	623
Unrealised foreign exchange (surpluses)/ losses	(308)	207
Non-premises insurance	435	344
	<b>7,031</b>	<b>7,019</b>

	2012 £000	2011 £000
<b>13 Maintenance of Premises</b>		
Repairs and maintenance	1,742	2,813
Energy and water costs	886	1,018
Rates and premises insurance	393	393
Cleaning	875	901
Reception and security	637	658
	<b>4,533</b>	<b>5,783</b>

	2012 £000	2011 £000
<b>14 General Educational Expenditure</b>		
School scholarships	678	576
Trust Fund scholarships and prizes	137	216
Examinations	69	78
Subscriptions	113	103
Student recruitment	104	106
University of London charges	97	95
Other	18	37
	<b>1,216</b>	<b>1,211</b>

# Notes to the Accounts

## 15 Tangible Assets

	Freehold Land and Buildings £000	Leasehold Buildings £000	Equipment and Furniture £000	Assets in Progress £000	Total £000
<b>Cost</b>					
At 1 August	68,029	6,996	10,385	11,875	97,285
Additions at cost	-	-	736	(838)	(102)
Taken to expense	-	-	-	(604)	(604)
Disposals	-	-	(84)	-	(84)
	<b>68,029</b>	<b>6,996</b>	<b>11,037</b>	<b>10,433</b>	<b>96,495</b>
<b>Depreciation</b>					
At 1 August	11,523	1,126	8,891	-	21,540
Charge for year	1,926	166	777	-	2,869
Eliminated in respect of disposals	-	-	(75)	-	(75)
	<b>13,449</b>	<b>1,292</b>	<b>9,593</b>	<b>-</b>	<b>24,334</b>
<b>Net Book Value</b>					
<b>At 31 July</b>	<b>54,580</b>	<b>5,704</b>	<b>1,444</b>	<b>10,433</b>	<b>72,161</b>
At 1 August	56,506	5,870	1,494	11,875	75,745

- (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 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" relate to the upgrade of laboratory facilities. The original programme of works was completed in August 2009 but a series of problems were identified which required further works to be completed before research activity could resume in the laboratories in September 2012. The School made a transfer to the Income & Expenditure Account in 2011-12 of £604K, to write back additions made to work-in-progress in 2010-2011 which were subsequently found not to have resolved the problems. The further reduction of £838K relates to the reversal of the unused balance of the provision made in 2010-11 for contractual claims, and does not impact the Income & Expenditure Account.



# Notes to the Accounts

## 16 Fixed Asset Investments

	2012 £000	2011 £000
At 1 August	4,738	3,616
Additions to investments	-	857
Revaluation	(111)	265
	<b>4,627</b>	<b>4,738</b>
Represented by:		
Managed funds:		
Equities	2,069	2,032
Fixed interest	338	321
Other	1,520	1,685
Sub-total	3,927	4,038
Other property investment	700	700
	<b>4,627</b>	<b>4,738</b>

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

	2012 £000	2011 £000
At 1 August	9,449	6,440
Additional funds invested	83	2,449
(Decrease)/ increase in market value of investments	(260)	622
Increase/ (decrease) in cash balances	331	(62)
	<b>9,603</b>	<b>9,449</b>
Represented by:		
Managed funds:		
Equities	4,887	4,755
Fixed interest	798	750
Other	3,589	3,946
Sub-total	9,274	9,451
Cash balance held by/ (due to) the School	329	(2)
	<b>9,603</b>	<b>9,449</b>

# Notes to the Accounts

## 18 Debtors

	2012 £000	2011 £000
Amounts falling due within one year:		
Research expenditure recoverable	10,374	9,282
Trade debtors	5,401	6,788
Prepayments	2,101	1,469
Accrued income	5,872	2,196
	<b>23,748</b>	<b>19,735</b>

## 19 Current Asset Investments

	2012 £000	2011 £000
At 1 August	5,000	-
Investment in term deposit	(5,000)	5,000
	<b>-</b>	<b>5,000</b>

The investment in 2011 consisted of a six month term deposit with Lloyds Bank, which matured in January 2012.

## 20 Creditors

	2012 £000	2011 £000
<b>Amounts falling due within one year:</b>		
Unsecured bank loans	408	341
Trade creditors and accruals	8,024	11,231
Social security and other taxation payable	1,114	1,205
Deferred income	3,471	3,958
Research grants received in advance	36,451	39,345
Other payments received in advance	2,352	1,853
	<b>51,819</b>	<b>57,933</b>

# Notes to the Accounts

## 21 Creditors over one year

	2012 £000	2011 £000
Analysis of unsecured bank loans:		
Due between one and two years	419	408
Due between two and five years	1,330	1,291
Due in five years or more	14,419	14,877
	<u>16,168</u>	<u>16,576</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 begin 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 Accounts

## 22 Deferred Capital Grants

	Funding Council £000	Other £000	Total £000
At 1 August			
Buildings	29,734	5,435	35,169
Equipment	634	354	988
<b>Total</b>	<b>30,368</b>	<b>5,789</b>	<b>36,157</b>
<b>Grants Received</b>			
Buildings	962	-	962
Equipment	-	271	271
<b>Total</b>	<b>962</b>	<b>271</b>	<b>1,233</b>
<b>Released to Income and Expenditure Account</b>			
Buildings	(842)	(125)	(967)
Equipment	(246)	(264)	(510)
<b>Total</b>	<b>(1,088)</b>	<b>(389)</b>	<b>(1,477)</b>
At 31 July			
Buildings	29,854	5,310	35,164
Equipment	388	361	749
<b>Total</b>	<b>30,242</b>	<b>5,671</b>	<b>35,913</b>

# Notes to the Accounts

## 23 Endowments

See Notes 5 and 17

	Permanent Restricted £000	Permanent Unrestricted £000	Expendable Restricted £000	Total £000
At 1 August				
Capital	7,333	1,513	-	8,846
Accumulated income	603	-	-	603
	<u>7,936</u>	<u>1,513</u>	<u>-</u>	<u>9,449</u>
New endowment capital	83	-	277	360
Investment income	200	33	-	233
Expenditure	(146)	(33)	-	(179)
Decrease in market value of investments	(226)	(34)	-	(260)
	<u><b>7,847</b></u>	<u><b>1,479</b></u>	<u><b>277</b></u>	<u><b>9,603</b></u>
<b>Represented by:</b>				
Capital	7,190	1,479	277	8,946
Accumulated income	657	-	-	657
	<u><b>7,847</b></u>	<u><b>1,479</b></u>	<u><b>277</b></u>	<u><b>9,603</b></u>
Representing:				
Scholarship funds	2,119	-	277	2,396
Prize funds	126	-	-	126
Library funds	285	-	-	285
Brass Blacker Chair	2,457	-	-	2,457
Other teaching and research funds	2,860	-	-	2,860
Other funds	-	1,479	-	1,479
	<u><b>7,847</b></u>	<u><b>1,479</b></u>	<u><b>277</b></u>	<u><b>9,603</b></u>

## 24 Income and Expenditure Account

	2012 £000	2011 £000
At 1 August	23,776	24,799
Surplus/ (deficit) retained for the year	1,808	(1,023)
	<u><b>25,584</b></u>	<u><b>23,776</b></u>

# Notes to the Accounts

## 25 Investment Reserve

	2012 £000	2011 £000
At 1 August	1,453	1,188
Revaluation in year	(111)	265
	<u>1,342</u>	<u>1,453</u>

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

## 26 Reconciliation of Operating Surplus/ (Deficit) to Cash Flow from Operating Activities

	2012 £000	2011 £000
Surplus/ (deficit) on continuing operations after depreciation of assets at valuation	1,865	(330)
Depreciation	2,869	2,997
Deferred capital grants released to income	(1,477)	(1,576)
Investment income	(416)	(461)
Interest payable	853	605
Decrease in stocks	-	23
(Increase)/ decrease in debtors	(4,013)	166
(Decrease)/ increase in creditors under one year	(6,116)	5,487
(Decrease) in creditors over one year	(67)	(125)
<b>Cash flow from operating activities</b>	<u><b>(6,501)</b></u>	<u><b>6,786</b></u>

## 27 Returns on Investments and Servicing of Finance

	2012 £000	2011 £000
Income from endowments	233	243
Income from other investments	183	218
Interest paid	(853)	(605)
<b>Cash flow from returns on investments and servicing of finance</b>	<u><b>(437)</b></u>	<u><b>(144)</b></u>

# Notes to the Accounts

## 28 Capital Expenditure and Financial Investment

	2012 £000	2011 £000
Payments to acquire tangible assets	706	(3,989)
New endowments received	360	2,424
Endowment funds invested	(83)	(2,449)
Additions to fixed asset investments	-	(857)
Disposal of fixed assets	9	-
Deferred capital grants net of disposals	1,233	364
<b>Cash flow from capital expenditure and financial investment</b>	<b>2,225</b>	<b>(4,507)</b>

## 29 Management of Liquid Resources

	2012 £000	2011 £000
Disposals/ (additions) to short term deposits	5,000	(5,000)
<b>Cash flow from management of liquid resources</b>	<b>5,000</b>	<b>(5,000)</b>

## 30 Financing

	2012 £000	2011 £000
Repayments of amounts borrowed	(341)	(83)
<b>Cash flow from financing</b>	<b>(341)</b>	<b>(83)</b>

## 31 Analysis of Changes in Net Funds

	At 1 August 2011 £000	Cash Flows £000	At 31 July 2012 £000
Cash at bank and in hand	30,677	(387)	30,290
Endowment assets (Note 17)	(2)	331	329
	30,675	(56)	30,619
Current asset investments	5,000	(5,000)	-
	35,675	(5,056)	30,619
Debts due within one year	(341)	(67)	(408)
Debts due after one year	(16,576)	408	(16,168)
	<b>18,758</b>	<b>(4,715)</b>	<b>14,043</b>

# Notes to the Accounts

## 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 two and a maximum of four are co-opted directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

The latest triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out regular reviews of the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2012 are also included in this note.

The triennial valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (ie the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% 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 £32,433.5 million and the value of the scheme's technical provisions was £35,343.7 million indicating a shortfall of £2,910.2 million. 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 (ie 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 Accounts

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 £2.2 billion, 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 previous valuation as at 31 March 2008 there have been a number of changes to the benefits provided by the scheme although these became effective from October 2011. These include:

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

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

Flexible Retirement - flexible retirement options were introduced.

Member contributions increased - contributions were uplifted to 7.5% 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%.

Since 31 March 2011 global investment markets have continued to fluctuate and following its peak in September 2011 inflation has declined rapidly towards the year end, although the market's assessment of inflation has remained reasonably constant. The actuary has estimated that the funding level as at 31 March 2012 under the scheme specific funding regime had fallen from 92% 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 2012 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 2012 was 74%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 56%.

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 Accounts

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

At 31 March 2012, USS had over 145,000 active members and the School had 812 active members participating in the scheme.

## **(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 (ie cash amounts) in accordance with paragraphs 8 – 12 of FRS17.

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:

# Notes to the Accounts

	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 2012, the School had 812 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 2012, 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 & expenditure account, was £6,088,000 (2011: £6,034,000).

# Notes to the Accounts

## 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.

One member of Council was paid a total of £1.3K in travel and subsistence expenses for the year ended 31 July 2012 and a further £1K of subsistence expenses was incurred on behalf of all members of Council (2011: five members received a total of £2K in total). 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

	2012 £000	2011 £000
Grant allocation received	10	9
Grants disbursed to students	(9)	(8)
<b>Balance to be refunded to HEFCE</b>	<u>1</u>	<u>1</u>

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

	2012 £000	2011 £000
Commitments contracted for at 31 July	<u>-</u>	<u>-</u>
Commitments approved but not contracted for at 31 July	<u>-</u>	<u>-</u>