

LONDON  
SCHOOL of  
HYGIENE  
& TROPICAL  
MEDICINE



# Financial Statements 2013–14

Improving health worldwide

# Council

## Chair

Sir T Lankester, KCB, MA (Camb), MA (Yale)

## Deputy Chair

Dr D Walford, CBE, MA, BSc, MSc, MD, FRCP, FRCPATH, FFPH

## Members

	<b>Appointed until</b>
<b>External members (10 members)</b>	
Dr A Carter, PhD, FISoilSci, MCIWEM	31.07.17
Mr K Chandarana, BSc, ACA	31.07.17
Ms A Grant, BA, MSc	31.07.17
Dr D S Joliffe, CB, FRCP (until 31.07.14)	
Sir T Lankester, KCB, MA (Camb), MA (Yale)	31.07.15
Mr J O'Donnell	31.07.16
Mr J Pethick (Honorary Treasurer and Chair of Planning & Finance Committee)	31.07.15
Mr S Premchand, BA, FCA	31.07.17
Mr J Roper, MA (Cantab)	31.07.16
Professor J Stephenson, BSc, PhD, CBiol, FIBiol	31.07.17
Dr D Walford, CBE, MA, BSc, MSc, MD, FRCP, FRCPATH, FFPH	31.07.15
<b>Elected staff members (4 members: 3 academic and 1 professional support)</b>	
Mr D Arthur, BSc (until 31.07.14)	
Professor A Grant, MB, BS, MSc, PhD, DTM&H, FRCP (ITD)	31.07.17
Professor K Hanson, BA, MPhil, ScD (until 31.07.14)	
Mr J Hinricher, LL.M, FRSPH (PSP)	31.07.17
Dr S Mayhew, (PHP)	31.07.17
Professor D Ross, MA, BM, BCh, MSc, PhD, DLSHTM (until 31.07.14)	
Professor H Weiss, MSc, DPhil (EPH)	31.07.17
<b>Director</b>	
Professor Baron P Piot, MD, PhD, FRCP, CMG	ex officio
<b>Chair of the Student Representative Council</b>	
Ms C Degen, B.S.	ex officio
Mr D Motti (until 31.07.14)	
<b>Secretary</b>	
Mr R Benson, Secretary & Director of Resources and Planning	

# Financial Statements for the Year Ended 31 July 2014

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# 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 2013-14, and highlights key trends or changes in the external environment which have affected the School during the year.

The School is operating in a challenging and uncertain environment. Recent years have seen significant changes to funding across the higher education sector and to the regulatory environment which have imposed pressures on all universities. The wider economic environment, combined with pressures on public expenditure and declining investment returns, have also affected a number of our major funders.

Despite these pressures, the School's income from its core teaching and research activities grew during the year, and this is an indication of the quality and relevance of our work. The School secured funding for major new research programmes during 2013-14 from the Department of Health, the Department for International Development, the Medical Research Council, Wellcome Trust and others. The development of our teaching programme also continued, and student recruitment to the School's London-based courses recovered in 2013-14 following a dip in the previous year. Given concerns across the higher education sector about support for students progressing to postgraduate study this recovery was notable, although concerns remain about the continuing decline in the number of UK students registering for postgraduate courses across the higher education sector.

We are living in times of rapid change and high uncertainty; both in terms of the financial and regulatory environment in which the School operates within the UK, and in the changing profile of the global disease burden and the globalisation of research, education and innovation.

The School's Strategy aims to address these issues by:

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

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

# Treasurer's Report

## Financial highlights and financial commentary

These financial statements report the results of the School's activities for the year ended 31 July 2014 and have been produced in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007.

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

Income and Expenditure for 2013-14 are summarised in the following table:

	2014 £m	2013 £m	% Increase/ (decrease) over prior year
Income	134.68	125.07	8%
Expenditure	(131.46)	(121.63)	8%
<b>Operating surplus</b>	<b>3.22</b>	<b>3.44</b>	<b>(6%)</b>
<b>Operating surplus - % of income</b>	<b>2.4%</b>	<b>2.8%</b>	
Taxation	-	-	
Surplus on disposal of fixed assets	3.34	-	
Transfer (to)/ from accumulated income within endowments	-	-	
<b>Surplus for the year</b>	<b>6.56</b>	<b>3.44</b>	<b>91%</b>

## Income and Expenditure for 2013-14

The School's operating surplus for 2013-14 is lower than in 2012-13, but is in line with the budget for the year. The operating surplus of £3.22m is equivalent to 2.4% of our total income for the year and therefore remains below the benchmark figure of 3% which the Higher Education Funding Council for England (HEFCE) has historically regarded as necessary to provide funds for long-term, sustainable investment. Although the School regards this as an appropriate benchmark of our financial performance, we are nevertheless mindful of the fact that a significant proportion of our income from research grants and contracts (£26.3m, or 31% of total research income for the year) was passed on to our research partners in the UK and overseas. If these payments to research partners are excluded, the surplus of £3.22m would be equivalent to 3.0% of net income.

In setting the budget for 2013-14, the School's Planning & Finance Committee also agreed that the marginally lower operating surplus was acceptable for the year, since the budget provided for additional investment in advance of the Research Excellence Framework (REF). Currently 85% of the School's recurrent funding from HEFCE is driven by our research performance, and the Planning & Finance Committee therefore took the view that bringing forward some targeted investment in advance of the REF was justified in order to ensure the strongest possible result. Replicating the outstanding results that the School achieved in the 2008 Research Assessment Exercise will however be a significant challenge.

The School recognises that we need to ensure we are generating sufficient surpluses for future investment; not only in research, but in our teaching programmes, our facilities, and in efficient support services. The Planning & Finance Committee has set a target of achieving annual surpluses of at least £3m throughout the planning period to 2017-18.

# Treasurer's Report

A detailed breakdown of sources of income and expenditure is shown in the Notes to the Financial Statements and comments on the principal factors affecting the surplus in 2013-14 are set out below.

## Highlights of income and expenditure

### Income

	2014 £m	2013 £m	% of income in 2013-14	% of income in 2012-13	% incr/ (decr) over prior year
HEFCE grant	23.05	23.32	17.1%	18.6%	(1%)
Tuition fees	17.26	14.23	12.8%	11.4%	21%
Research income	85.67	79.34	63.6%	63.4%	8%
Other income	7.91	7.55	5.9%	6.0%	5%
Investment income	0.79	0.63	0.6%	0.5%	25%
<b>Total income</b>	<b>134.68</b>	<b>125.07</b>	n/a	n/a	8%

The School is less dependent on the recurrent grant from HEFCE than many universities, but it is nevertheless essential to maintaining the infrastructure to support teaching and research and providing the stability that we need for future planning. As noted above, maintaining HEFCE funding will in large part be dependent on the School's performance in the REF; the results of which will be published in December 2014. The greater emphasis given to research impact in this REF should provide an opportunity to highlight the strength of our applied research and the School has submitted strong case studies showing how our work has been translated into policy and practice.

Tuition fee income increased in 2013-14, due to the recovery in recruitment to our face-to-face teaching programmes in London.

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

London based taught course students	661
London based research degree students	418
Distance Learning students	2,830

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

The School made intensive efforts to restore recruitment, and in 2013-14 overall student numbers have returned to the level achieved in 2011-12. Including joint courses, the number of new students registering at the start of 2013-14 was around 25% higher than at the start of 2012-13 and 7.5% higher than in 2011-12. This improvement includes a marked increase in the number of overseas students. Numbers also recovered for Home students, with admissions only marginally below the level achieved in 2011-12. While clearly welcome, this improvement was primarily due to an increase in the number of EU students and recruitment for full-time UK students did not recover in line with those for other groups.

# Treasurer's Report

The School has continued efforts to support recruitment throughout the past year, and initial registration figures for 2014-15 indicate a recovery of UK students. This is notable given wider UK trends, but it is too early to know what were the critical factors in this recovery or whether it will be sustained in future years.

The School's income from research grants and contracts increased by 8.0% to £85.7m. This is a significant achievement at a time when the research budgets of some of our major sponsors are under pressure, and the funding environment is increasingly competitive. Particularly notable was the increase in income from the UK research councils, which increased by 54.7% to £13.3m compared to £8.6m in 2012-13. Income from UK government departments and health authorities also increased; by 19.6%, to £17.1m from £14.3m the previous year.

## Expenditure

	2014 £m	2013 £m	% of operating costs in 2013-14	% of operating costs in 2012-13	% incr/ (decr) over prior year
Staff costs	63.68	59.47	50.3%	50.9%	7%
Other operating expenses	62.97	57.39	49.7%	49.1%	10%
<b>Total operating costs</b>	<b>126.65</b>	<b>116.86</b>			<b>8%</b>
Interest payable	0.81	0.83			
Depreciation	4.00	3.94			
<b>Total expenditure before taxation and transfer from/ (to) endowments</b>	<b>131.46</b>	<b>121.63</b>			

Staff costs increased by 7% in 2013-14 compared to the previous year, but this was driven primarily by the increase in research activity and income. This increase in research activity is also the main factor responsible for the increase in other operating costs, and it should be noted that the increase of approximately £5.6m in non-staff costs shown in the table above includes an increase of approximately £3.4m in payments to research partners (which as noted earlier totalled £26.3m in 2013-14, compared to £22.9m in 2012-13).

## Highlights of movements in assets and liabilities

The School sold three parcels of surplus land at Winches Farm in St Albans for a total of £3.325m, and the purchaser agreed to contribute a further £375k in respect of planning costs that the School had incurred in previous years. The proceeds will be used to part finance the School's capital expenditure programme over the next four years, principally to support the development of the Bloomsbury Research Institute (which is described in later sections of this report). The book value of Winches Farm was nil as it was donated to the School. The movement in the School's Tangible Assets, a reduction of £2.5m, is due to additions of £1.5m less the depreciation charge for the year of £4.0m.

The land at Winches Farm will enable the purchaser to sell adjoining land (which the purchaser owns) to a developer. The purchaser has agreed that, if the overall sale of its land exceeds a certain sum, any resultant surplus will be split equally between the purchaser and the School. The School has not recognised any resultant surplus in the the current year.

The School's longer term investments were valued at £5.1m at the year end and its Endowment Assets of £11.3m increased marginally on the previous year. Our long term investments are managed by an investment manager with discretion to invest in accordance with the School's investment policy.

Net current assets have increased by £8.1m. Cash and short term investments together have risen £5.7m compared with last year. The School has continued its policy of safety with regard to short term cash surpluses despite the very low returns of around 0.5% per annum. The investment of £5.0m in 2013-14 was a five-month term deposit with Lloyds Bank which matures in November 2014. The remaining cash balances of £42.3m are invested mainly in short term bank deposits of up to two months or Treasury bills.

# Treasurer's Report

The level of debtors increased by £14.4m compared to the previous year as shown in Note 19. Trade debtors increased by £10.7m of which £3.7m will be paid in December 2014 for the disposal of land at Winches Farm and contribution to planning fees. Research related debts rose by £5.0m, which were all settled shortly after year end. Research expenditure recoverable increased by £4.1m due to the higher level of research activity. This was off-set by an increase in creditors falling due within one year of £12.0m as shown in Note 21. Trade creditors rose by £5.5m mainly due to payments owed to collaborators. Research grants received in advance increased by £4.4m due to the higher level of research activity and deferred income rose by £2.4m due to income received in advance of four non-research projects.

Creditors falling due after more than one year comprise unsecured term loans and details are provided in Note 22.

## Future Developments and Challenges

The School is currently budgeting for a surplus of approximately £3.5m in 2014-15, with annual surpluses of between £2.2m and £4.5m in subsequent years. The School has been successful in attracting research funding, and has continued to develop its teaching programme including distance learning courses. However the economic climate remains uncertain, and regardless of the outcome of the next general election pressure on public expenditure is likely to increase further from 2015-16.

### *Pension issues*

Along with other universities, the School is mindful of the potential increase in pension costs arising from the current revaluation of the national Universities Superannuation Scheme, with any additional costs expected to coincide with the introduction of the universal state pension, which will result in an increase in National Insurance costs from April 2016. We are aware that some contribution will be required from the School to address our pro-rata share of the USS deficit, and have made provision in our financial forecasts for an increase in employers' contributions from 16% to 18%. However any additional contributions above this level could damage the School's ability to pursue the objectives set out in our Strategy. Given our strong covenant and the exceptional and abnormally low long-term rate environment which inflates the liabilities, we believe that it would be short-sighted to de-risk the scheme's investments to the extent and over the timescale originally proposed by the USS Trustees and have made representations to this effect to USS and the Employers Pension Forum.

### *Bloomsbury Research Institute*

One of the School's most significant financial risk over the coming years will be investment in our capital programme; including the development of a new shared laboratory facility with University College London to house the Bloomsbury Research Institute (BRI), and managing the infrastructure of the School's Keppel Street building. However, the development of the BRI also represents a major strategic opportunity for the School, building on the partner institutions' complementary expertise in infectious disease research and establishing the BRI as part of the largest bio-science hub in Europe with links to the Crick Institute, the clinical resources of UCL Partners and the Hospital for Tropical Diseases. Alongside the scientific rationale for BRI, the initiative also presents an opportunity for both partners to share the costs of expensive laboratories and equipment. Relocating some of the School's laboratories to the new facility will also reduce the cost of infrastructure works in Keppel Street and enable the School to remodel the areas released to enhance the quality and efficiency of space within the building.

Development of a new shared laboratory facility will require significant investment from both partners, and – following a full feasibility study – we have identified vacant land behind the School's Tavistock Place building as the preferred location. The partners have secured a significant grant from HEFCE's Catalyst fund to support the development of BRI, and are working closely together on a joint fundraising campaign. Attracting support for BRI is the top priority for the School's fundraising programme, working closely with colleagues from UCL. It will be essential to ensure that secure funding is in place before the School's governing Council commits to such significant capital investment.

Subject to success on the fundraising campaign, the School expects to finance our remaining share of the capital costs for the new facility from assets sales (including the receipt for Winches Farm), and our Planning & Finance Committee has appointed professional advisers to assess other funding options.

The School signed an initial memorandum of understanding (MoU) with UCL in November 2011 establishing the BRI as a virtual institute. As the partners move ahead with plans for the new facility, more robust governance arrangements are needed and an expanded MoU setting these in place was signed in October 2014. The project is being led by a BRI Strategy Group, chaired by the School's Director, with the Dean of UCL's Faculty of Medical Sciences as vice-chair. A project board – reporting to the Strategy Group - is in place with membership from both partners to co-ordinate the various work streams supporting the project.



# Treasurer's Report

The creation of new laboratory space at Tavistock Place would release space in the Keppel Street building, which would greatly facilitate the major works that will be needed to upgrade the building's ageing infrastructure. The budget for 2014-15 and our financial forecasts include investment of approximately £500k per annum to address priority infrastructure works. This will support a phased programme of planned and preventative maintenance that will enable us to manage the infrastructure issues and maintain all of our core services until the new laboratory facility is complete.

In this context, we will continue - and where possible accelerate - existing plans to develop and diversify our sources of income to ensure that we can invest to support both the capital programme and the other priorities identified in our Strategy. This will be essential to ensure that we remain competitive with comparable institutions in North America, Europe and, increasingly, those emerging in middle income countries.

## ***Development of our teaching programmes***

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 recent years. As noted earlier, the School experienced a dip in student recruitment in 2012-13 when these new arrangements - and associated increases in tuition fees across the sector - first came into effect. Following intensive efforts by academic and support staff across the School, we have restored recruitment to previous levels. This is a significant achievement and is somewhat against the national pattern at postgraduate level. However, the School cannot be complacent and is taking action at two levels to address continuing concerns about recruitment.

At an institutional level, the School's Senior Leadership Team instigated a review of our education programmes during 2013-14. The aim of the review is to ensure that our education programmes remains globally competitive and relevant for students' future careers over the next 10-15 years. The review has considered the educational content, delivery and management of our teaching and the review group's final report will be completed in late 2014. From work to date, this is expected to include a number of recommendations including:

- undertaking a review of the student recruitment and the application process, and of all the student-facing services in order to improve the efficiency of recruitment and overall experience for students
- continued investment in development of the teaching programme, including further work to bring together comparable courses delivered face-to-face and by distance learning in order to offer the same course content irrespective of the mode of delivery and enabling a new paradigm of blended learning.

Analysis by the review group found that the School has an excellent reputation globally for the quality of our teaching and that the reputation of the School's education programme is strengthened through the strong link with excellent research. The approach outlined in the review will enable the School to build on these strengths and provide flexible mixed-mode programmes which address the developing needs of students and employers. This model may become increasingly attractive as levels of undergraduate debt increase, and those wishing to undertake a Master's degree look for alternative routes that do not require full-time study.

The School is also investigating ways in which it can capitalise on the significant investment that it has made in distance learning materials, including the development of Massive Open Online Courses (MOOCs). The School's first MOOCs will be launched on the FutureLearn platform during 2014-15.

At a national level, the School will continue to work with Universities UK and others to lobby government on the importance of postgraduate study to the advanced skills needed in the bioscience and public health sectors, and the future success of the UK economy. We welcome all of the work that HEFCE has done over the past year to address this issue, but it is unclear at this stage how effective current initiatives will be. Despite the improvement in our own recruitment figures, we also remain concerned that current visa restrictions are deterring able and well qualified students from coming to the UK and know that we have lost some strong applicants to other institutions as a direct result of delays in obtaining a visa. 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.

## ***Research***

Research grants and contracts will remain the School's largest source of income. In an increasingly competitive environment, maintaining the current level of income will be a challenge. Improving rates of cost recovery will also be essential and it is encouraging that the School's income increased in 2013-14 from the research councils and UK government sources that make awards on the basis of full economic cost.

# Treasurer's Report

Given the focus of our work, it is anticipated that charities and foundations will continue to be major sponsors of the School's research. Such work is fundamental to the School's mission, and to the UK science base. However, research funded by charities and foundations does not generally contribute towards the recovery of indirect costs. The government's previous commitment to ring-fence the science budget was therefore welcome, including the maintenance of the charity support element within the HEFCE recurrent grant (which provides a contribution towards the overhead costs of charity-funded work). However it is unclear whether this funding will be maintained beyond the next Spending Review in 2015-16.

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

## ***Diversifying our income***

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 & Finance Committee. The Planning & Finance Committee has established a dedicated sub-committee to advise on this area of work, and during 2013-14 a subsidiary company, Chariot Innovations Limited, began to trade as a vehicle for third stream activity. The activity (providing contract research and testing services for insect repellents and other products) performed well during its first year, and has established a healthy pipeline of contracts which should enable it to double its turn-over in its second year. The School is also working to develop other activities, which we expect to launch over the next 2-3 years.

The School is also working to develop our fundraising capacity. We have made significant progress in attracting funds for scholarships, and in 2013-14 received donations of £1.3m. This work will continue but, as noted earlier, the major focus of our fundraising for the next 2-3 years will be support for the Bloomsbury Research Institute and the School's capital programme.

## ***Financial sustainability***

Given the opportunities and risks outlined above, the School is taking a number of steps to ensure our financial sustainability, and make sure that we can continue to invest in our core research and teaching whilst also funding the capital programme. The School's Senior Leadership Team has agreed a three year efficiency plan which will generate savings of £1m pa from 2016-17. It has also begun a review of the School's business model, to assess the income and costs of all our core activities and to identify areas for further development. This is unlikely to result in any significant shift in the School's activity, but will inform the developments in teaching, research and other areas outlined in this report to ensure that we are managing our costs and achieving the highest possible financial contribution from our work, where this is consistent with our mission.

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

# Treasurer's Report

## Public Benefit Statement

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

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

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

Examples include:

- smoking continues to cause more preventable deaths than anything else in the UK and worldwide – nearly 80,000 in England alone during 2011, according to government figures. Around half of current smokers will be killed by their habit if they continue to smoke. The txt2stop trial, led by the School, provided robust evidence that support delivered by text messaging can double the number of smokers abstaining six months after quitting and is highly cost-effective. The research resulted in a new smoking cessation service delivered by text message in England, and at least four other countries have now taken steps to roll out their own programmes
- the School's researchers have carried out influential research that has demonstrated the impact of mental health problems on the global burden of disease. In low- and middle-income countries, more than 20% of all disability related to health conditions is caused by mental health problems. The School's work has promoted new approaches to mental health care, including demonstrating that evidence-based treatments can be delivered in low-resource settings by non-specialist health care workers. Their work has influenced donors, practitioners and policy-makers. Based on their research the World Health Organization (WHO) launched a flagship action plan, and the findings have been translated into treatment guidelines used to train health workers in managing mental illness in many countries
- every year traumatic bleeding, mostly from road accidents or violent crime, causes hundreds of thousands of deaths worldwide. The CRASH-2 trial led by School researchers found that post-injury administration of the drug tranexamic acid (TXA) in such cases reduced mortality by one sixth without exhibiting serious side effects. Further analysis estimated administration of the drug to be highly cost-effective, with the estimated incremental cost per life year gained of administering TXA being £42 in the UK. The study has had a wide impact, with TXA being included in the WHO's List of Essential Medicines. The UK health minister Earl Howe described the study as 'a great example of how important research can help the NHS save more lives and spread best practice around the world'
- School staff have contributed to the UK's effort to address the current ebola outbreak. Staff have advised the UK government and international agencies on responses to the crisis. The School is also supporting staff who wish to volunteer, and has agreements in place to facilitate staff working with Save the Children and Medicins Sans Frontieres. The first members of School staff began work in Sierra Leone and Liberia in October, while others have volunteered to work with WHO in Geneva.

In the Research Assessment Exercise of 2008, the School was among the highest ranked institutions in the UK, with between 65% and 80% of our research assessed as world leading or internationally excellent. We have a far-reaching network of long-standing national and international collaborations with around 100 School staff living and working in low- and middle-income countries. The School does not feature in many of the published league tables of universities, because it does not have undergraduate students. This meant, for example, that it was excluded from the World University Ranking recently published by the Times Higher Education (THE) and Thomson Reuters in 2014. THE nevertheless identified the School as one of a group of world class institutions outside the main league table, and ranked the School as the number one institution in the world in the category of research-focused graduate schools. It is one of only 10 UK higher education institutions to be included in the THE World Reputation Rankings.

# Treasurer's Report

In May 2014, it was ranked in the top 10 of all universities in the world for citation rate by the new EU-supported U-Multirank database, and fourth in the world for impact in medical sciences by the Leiden Ranking.

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 a 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 54 work experience students were able to visit the School in 2013-14 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.



**J S Pethick**  
Treasurer

26 November 2014

# 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, including compliance with the Governance Code of Practice published by the Committee of University Chairs (CUC).

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

## Statement of Internal Control

The Council is responsible for the School's system of control and for reviewing its effectiveness. The School has established a risk management framework to support the School Strategy approved by Council in April 2012. This framework includes a strategic risk register which identifies the high level "red" and "amber" risks linked to the Strategy, and provides a tool for evaluating and managing each risk. Strategic risks are monitored by the Senior Leadership Team, and risk is also a standing item at all meetings of Council. Risk registers are in place for all faculties and for central services which assess the likelihood and impact of operational risks.

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 us from achieving our strategic objectives. The School takes its responsibilities to our 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 our key stakeholders.

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

The internal auditors provide an annual report which includes an opinion on the School's controls. The report for 2013-14 concludes that, in the internal auditors' opinion, the School maintained adequate controls over its core financial and non-financial processes, for risk management and governance, and for ensuring value for money.

The School's system of control 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.

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

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

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

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 HEFCE.

# Corporate Governance

Council meets four times a year and has several committees, including a Planning & Finance Committee, an Audit Committee, a Remuneration Committee, and a Nominations Committee. Council delegates a number of functions to these committees which are formally constituted with terms of reference and include members of Council. Each of these committees is chaired by a non-staff member of Council. Council has also established a Standing Committee on Governance to advise on governance issues and ensure that Council and its sub-committees continue to comply with best practice.

Council undertook a formal review of its effectiveness in 2013, in accordance with good practice and the CUC Governance Code of Practice. This review was co-ordinated by the Standing Committee on Governance with support from an independent adviser. The review found that Council was fulfilling its responsibilities effectively, but also made a number of recommendations which have subsequently been adopted by Council. These changes include amending the constitution of Council, the development of clearer role descriptions for Council members, and reviewing the constitution and terms of reference of the Nominations Committee to enhance the transparency of the appointment process for Council and its sub-committees. The review resulted in a number of minor amendments to the Charter as set out in the Schedule to the Order of the Privy Council. These changes are explained in the governance section of the School's web-site.

The Standing Committee on Governance has now begun a rolling programme of effectiveness reviews for Council sub-committees. The role of the principal sub-committees is set out below.

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 meets four times each year with the School's external and internal auditors. The Committee considers detailed reports together with recommendations for the improvement of the School's systems of control, and management's responses and implementation plans. It also considers reports from HEFCE and other School funders as they affect the School's business, and monitors adherence with 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 2014 has been governed by this approach. Whilst senior executives attend meetings of the Audit Committee as necessary, they are not members of the Committee. The Committee produces an annual report to Council covering all aspects of its work.

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

The Nominations Committee considers nominations for lay member vacancies on Council and its sub-committees in accordance with CUC guidance. Its recommendations to Council take into account the balance of skills, knowledge and experience of Council and sub-committees' members. An audit of Council members' skills and experience was undertaken in 2013 as part of the Council effectiveness review, and the Nominations Committee will keep the mix of skills under review when considering future vacancies. The School will also look to improve the diversity of Council and its sub-committees, reflecting its commitment to Athena SWAN charter, Equality Challenge and the values set out in the School Strategy.

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

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

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

Details of related party transactions involving members of Council or senior officers are disclosed in Note 34 to the Financial Statements. The lay members of Council do not receive any payment for the work they do for the School, apart from the reimbursement of expenses.

# Corporate Governance

## Council: Statement of Primary Responsibilities

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

These responsibilities are set out below:

### **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 keep under regular review the policies and procedures established 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 that the School operates in accordance with its Charter and the requirements set out in the HEFCE Financial Memorandum.
5. 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.
6. 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**

7. To monitor and evaluate the performance and effectiveness of the School against its strategic plans through review of approved key performance indicators, which should be, where possible and appropriate, benchmarked against other comparable institutions.
8. To establish processes to monitor and evaluate the performance and effectiveness of the School and the Council itself.

### **Values**

9. 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).
10. To safeguard and actively promote the reputation and standing of the School.

### **Conflicts of Interest**

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

# Corporate Governance

## **Core Responsibilities**

12. To act in accordance with the following principles:

- 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**

13. To appoint external members to Council, including a Chairman, Deputy Chairman and Honorary Treasurer (who shall be Chairman of Planning & Finance Committee), and Court.

14. Appoint standing and ad hoc committees as required, determining both compositions and terms of reference.

## **Academic**

15. To ensure that systems are in place to monitor, and to maintain or improve, the quality of the School's teaching, training, learning and research activities and to receive reports and recommendations from Senate on all academic matters.

16. To make such provision as Council thinks fit for the general welfare of students, in consultation with Senate.

## **Staff**

17. 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.

18. 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.

19. To be the employing authority for all staff in the School, including undertaking an annual review of senior staff, and to ensure the establishment of a human resources strategy.

20. To ensure that strategies are in place for succession planning of the School's senior management posts.

21. To make such provision as it thinks fit for the general welfare of staff.

## **Safety**

22. 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.



# Corporate Governance

## ***Equality and Diversity***

23. To ensure that the School provides an inclusive and supportive environment, and that members of staff, students and visitors are not in any way disadvantaged on grounds of religion and belief, race, political affiliation, marital or parental status, socio-economic background, sexual orientation, age, sex, gender identity or disability.

## ***Financial***

24. 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.

25. To act as trustee for any property, legacy, endowment, bequest or gift in support of the work and welfare of the School.

## ***Estates***

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

## ***Legal Compliance***

27. 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;
  - (ii) judgements and estimates are made that are reasonable and prudent;
  - (iii) 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.
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 financial statements of London School of Hygiene & Tropical Medicine (the 'School') for the year ended 31 July 2014 which comprise the statement of principal accounting policies, the consolidated income and expenditure account, the statement of group total recognised gains and losses, the consolidated and School balance sheets, the consolidated cash flow statement 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 section 14 of 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 them 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 School and the Council, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the members of the Council

As explained more fully in the Responsibilities of the Council Statement set out on page 16, the Council are responsible for the preparation of the 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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the School's affairs as at 31 July 2014, and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education.

## Opinion on other matters prescribed by HEFCE's Financial Memorandum dated July 2010

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 managed in accordance with the relevant legislation; and
- funds provided by HEFCE have been applied in accordance with the funding council's 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 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.

Grant Thornton UK LLP

Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
London

27 November 2014

# 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. Basis of consolidation

The consolidated financial statements include the School and all its subsidiaries for the financial year to 31 July 2014- see note 17. The results of subsidiaries acquired during the period are included in the consolidated Income and Expenditure Account from the date of acquisition. Intra-group transactions are eliminated on consolidation.

## 4. Recognition of income

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

## 5. Operating leases

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

# Statement of Principal Accounting Policies

## 6. 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 33 to the Financial Statements).

## 7. Tangible fixed assets

### *Freehold and Leasehold Land and Buildings*

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

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

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

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

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

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

### *Equipment and furniture*

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

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

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

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

## 8. Investments

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

# Statement of Principal Accounting Policies

## 9. Cash flows and liquid resources

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

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

## 10. Endowment funds

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

- Unrestricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the School.
- Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the institution can convert the donated sum into income.
- Restricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

## 11. 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.

## 12. 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.

# Statement of Principal Accounting Policies

## 13. 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.

## 14. 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.

## 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 11 to the Accounts).

## 16. Going concern

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

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

# Consolidated Income and Expenditure Account for the year ended 31 July 2014

	Notes	2014 £000	2013 £000
<b>INCOME</b>			
Funding council grants	1	23,053	23,321
Tuition fees	2	17,259	14,232
Research grants and contracts	3	85,674	79,341
Other income	4	7,910	7,552
Endowment and investment income	5	792	628
<b>Total income</b>		<b>134,688</b>	<b>125,074</b>
<b>EXPENDITURE</b>			
Staff costs	6	63,682	59,472
Other operating expenses	8	62,968	57,386
Depreciation	16	4,000	3,937
Interest payable	7	812	835
<b>Total expenditure</b>		<b>131,462</b>	<b>121,630</b>
<b>Surplus after depreciation of tangible fixed assets and before tax</b>		<b>3,226</b>	<b>3,444</b>
Taxation	9	(2)	1
<b>Surplus before exceptional item after depreciation of assets and tax</b>		<b>3,224</b>	<b>3,445</b>
<b>Exceptional item</b>	10		
Disposal of fixed assets		3,338	-
<b>Surplus after depreciation of assets, disposal of assets and tax</b>		<b>6,562</b>	<b>3,445</b>
Transfer to accumulated income within restricted endowments	24	-	-
<b>Surplus for the year retained within general reserves</b>	25	<b>6,562</b>	<b>3,445</b>

*The Income and Expenditure Account is in respect of continuing activities.*



## Statement of Group Total Recognised Gains and Losses for the year ended 31 July 2014

	Notes	2014 £000	2013 £000
Surplus on continuing operations after depreciation of assets and tax		6,562	3,445
Increase in value of fixed asset investments chargeable to investment reserve	17	121	448
Increase in value of endowment asset investments	18	69	982
New endowments	24	173	372
Transfer to Income and Expenditure Account from restricted endowments	24	85	-
<b>Total recognised gains relating to the year</b>		<b>7,010</b>	<b>5,247</b>
<b>Reconciliation</b>			
Opening reserves and endowments		41,776	36,529
Total recognised gains for the year		7,010	5,247
Closing reserves and endowments		<b>48,786</b>	<b>41,776</b>

# Balance Sheets as at 31 July 2014

	Notes	2014 Consolidated £000	2014 School £000	2013 Consolidated £000	2013 School £000
<b>Fixed Assets</b>					
Tangible assets	16	66,930	66,927	69,402	69,402
Investments	17	5,110	5,110	5,075	5,075
Investments in subsidiaries	17	-	100	-	-
		<u>72,040</u>	<u>72,137</u>	<u>74,477</u>	<u>74,477</u>
<b>Endowment Asset Investments</b>	<b>18</b>	<u>11,284</u>	<u>11,284</u>	<u>10,957</u>	<u>10,957</u>
<b>Current Assets</b>					
Debtors	19	35,990	35,842	21,579	21,579
Investments	20	5,000	5,000	5,000	5,000
Cash at bank and in hand		42,308	42,278	36,649	36,649
		<u>83,298</u>	<u>83,120</u>	<u>63,228</u>	<u>63,228</u>
<b>Creditors: amounts falling due within one year</b>	<b>21</b>	<u>(66,191)</u>	<u>(66,110)</u>	<u>(54,177)</u>	<u>(54,177)</u>
<b>Net Current Assets</b>		<u>17,107</u>	<u>17,010</u>	<u>9,051</u>	<u>9,051</u>
<b>Creditors: amounts falling due after more than one year</b>	<b>22</b>	<u>(15,318)</u>	<u>(15,318)</u>	<u>(15,749)</u>	<u>(15,749)</u>
<b>NET ASSETS</b>		<u>85,113</u>	<u>85,113</u>	<u>78,736</u>	<u>78,736</u>
<b>Represented by:</b>					
<b>Deferred Capital Grants</b>	<b>23</b>	<u>36,327</u>	<u>36,327</u>	<u>36,960</u>	<u>36,960</u>
<b>Endowment Funds</b>					
Restricted permanent funds	24	8,085	8,085	8,003	8,003
Restricted expendable funds	24	1,539	1,539	1,306	1,306
Unrestricted permanent funds	24	1,660	1,660	1,648	1,648
		<u>11,284</u>	<u>11,284</u>	<u>10,957</u>	<u>10,957</u>
<b>Reserves</b>					
Income and expenditure account	25	35,591	35,591	29,029	29,029
Investment reserve	26	1,911	1,911	1,790	1,790
		<u>37,502</u>	<u>37,502</u>	<u>30,819</u>	<u>30,819</u>
<b>TOTAL FUNDS</b>		<u>85,113</u>	<u>85,113</u>	<u>78,736</u>	<u>78,736</u>

The Financial Statements on pages 18 to 44 were approved by the Council on 26 November 2014 and signed on its behalf by:



**Professor Baron Peter Piot**  
Director



**Sir Tim Lankester**  
Chairman, Council

# Consolidated Cash Flow Statement for the year ended 31 July 2014

	Notes	2014 £000	2013 £000
Net cash inflow from operating activities	27	5,948	10,014
Returns on investments and servicing of finance	28	65	(207)
Taxation	10	-	-
Capital expenditure and financial investment	29	150	1,542
Management of liquid resources	30	-	(5,000)
Financing	31	(419)	(408)
<b>Increase in cash in the year</b>	<b>32</b>	<b><u>5,744</u></b>	<b><u>5,941</u></b>

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

		2014 £000	2013 £000
<b>Increase in cash in the year</b>		5,744	5,941
Increase in short term deposits	30	-	5,000
Decrease in debt		419	408
<b>Change in net funds</b>		<b><u>6,163</u></b>	<b><u>11,349</u></b>
Net funds at 1 August		25,392	14,043
<b>Net funds at 31 July</b>	<b>32</b>	<b><u>31,555</u></b>	<b><u>25,392</u></b>

# Notes to the Financial Statements

## 1 Funding Council Grants

*Higher Education Funding Council for England*

<b>Notes</b>	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Recurrent grants	21,364	21,338
Specific grants	4	217
Release of deferred capital grants		
Buildings	<b>23</b> 1,606	1,606
Equipment	<b>23</b> 79	160
	<u><b>23,053</b></u>	<u><b>23,321</b></u>

## 2 Tuition Fees

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Fees from full-time students charged UK fees	2,458	1,997
Fees from full-time students charged overseas fees	6,555	4,775
Fees from students charged part-time fees	812	742
Fees from students on short courses	1,562	1,445
Fees from distance learning courses	5,872	5,273
	<u><b>17,259</b></u>	<u><b>14,232</b></u>

## 3 Research Grants and Contracts

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
UK research councils	13,314	8,615
UK charities	15,887	17,653
UK government departments and health authorities	17,091	14,341
UK other	1,789	2,015
EU Commission and other government bodies	4,757	4,715
EU other	1,751	1,227
Charities based outside the UK	18,777	18,474
Industry and commerce outside the EU	2,379	1,081
Other sources outside the EU	9,929	11,220
	<u><b>85,674</b></u>	<u><b>79,341</b></u>

# Notes to the Financial Statements

4 Other Income	Notes	2014 £000	2013 £000
Research consultancy		1,036	701
Other non-research grant income		<u>3,673</u>	<u>3,527</u>
		4,709	4,228
Other services rendered		1,080	1,193
Other general income		1,787	1,828
Refectory		334	303
		<u><u>7,910</u></u>	<u><u>7,552</u></u>
5 Endowment and Investment Income		2014 £000	2013 £000
Income from expandable endowments	24	392	225
Income from permanent endowments	24	290	40
Income from other investments		<u>110</u>	<u>363</u>
		<u><u>792</u></u>	<u><u>628</u></u>

# Notes to the Financial Statements

## 6 Staff

	2014	2013
	£000	£000
Staff Costs:		
Wages and salaries	52,459	48,982
Social security costs	3,939	3,954
Other pension costs (Note 33)	7,284	6,536
	<u>63,682</u>	<u>59,472</u>
Emoluments of the Director:	£000	£000
<b>Professor Peter Piot</b>		
Salary and benefits	277	281
Pension contribution to USS	37	36
<b>Total emoluments</b>	<u>314</u>	<u>317</u>

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

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

	2014	2013
	Number	Number
£100,000 - £109,999	5	7
£110,000 - £119,999	5	2
£120,000 - £129,999	4	4
£130,000 - £139,999	1	2
£140,000 - £149,999	2	-
£150,000 - £159,999	1	1
£160,000 - £169,999	2	1
£170,000 - £179,999	4	2
£180,000 - £189,999	1	-
£190,000 - £199,999	1	1
	<u>26</u>	<u>20</u>

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

	2014	2013
	Number	Number
Teaching and Research staff in academic faculties	653	630
Support staff in academic faculties	212	202
Central services	230	219
Premises	32	26
Other	1	4
	<u>1,128</u>	<u>1,081</u>

# Notes to the Financial Statements

7 Interest Payable	2014	2013
	£000	£000
Loans repayable wholly or partly in more than five years	812	816
Other interest	-	19
	<u>812</u>	<u>835</u>

## 8 Staff Costs and Other Operating Expenses

	Notes	2014			2013		
		£000 Total	£000 Staff	£000 Other	£000 Total	£000 Staff	£000 Other
Academic faculties:							
General funds		16,352	15,734	618	16,823	14,783	2,040
Projects:							
Research grants and contracts		77,755	33,046	44,709	71,335	30,923	40,412
Consultancy agreements		724	393	331	534	319	215
Other grants		3,673	1,848	1,825	3,527	1,534	1,993
		<u>82,152</u>	<u>35,287</u>	<u>46,865</u>	<u>75,396</u>	<u>32,776</u>	<u>42,620</u>
Total academic faculties' expenditure		<u>98,504</u>	<u>51,021</u>	<u>47,483</u>	<u>92,219</u>	<u>47,559</u>	<u>44,660</u>
Academic services	12	10,080	5,618	4,462	8,765	5,377	3,388
Administrative services	13	8,733	5,241	3,492	8,151	4,942	3,209
Maintenance of premises	14	5,881	928	4,953	4,896	844	4,052
Equipment and furniture		(414)	-	(414)	242	-	242
Refectory		377	275	102	343	259	84
Severance costs		33	39	(6)	318	189	129
General educational expenditure	15	1,585	214	1,371	1,288	219	1,069
Studentships		1,222	-	1,222	-	-	-
Student and staff facilities		170	98	72	136	83	53
Other expenditure		515	248	267	482	-	482
Recoverable input VAT		(36)	-	(36)	18	-	18
		<u>126,650</u>	<u>63,682</u>	<u>62,968</u>	<u>116,858</u>	<u>59,472</u>	<u>57,386</u>

# Notes to the Financial Statements

9 Taxation	2014	2013
	£000	£000
Current tax		
UK Corporation Tax of 20% on surplus for the year	2	-
Adjustment in respect of previous years	-	(1)
	<u>2</u>	<u>(1)</u>
Tax paid in year	<u>-</u>	<u>-</u>
10 Exceptional item	2014	2013
	£000	£000
Surplus on disposal		
Disposal of land (Note 16)	3,325	-
Part disposal of other property investment (Note 17)	13	-
	<u>3,338</u>	<u>-</u>
11 London International Development Centre	2014	2013
	£000	£000
Income	227	272
Expenditure	(346)	(272)
Net deficit	<u>(119)</u>	<u>-</u>
Buildings at historic cost	2,960	2,960
Depreciation to date	(414)	(355)
Net book value at 31 July	<u>2,546</u>	<u>2,605</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.



# Notes to the Financial Statements

<b>12 Academic Services</b>	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Library	1,636	1,596
Network Support Team	3,480	2,290
Biological Services Unit	212	396
Electron Microscopy & Histopathology Unit	-	3
Supplies Unit	303	250
Safety	149	203
Teaching Support	3,790	3,638
Senior Management Team	3	3
Staff Development	361	210
Clinical Trials Support	146	176
	<u><b>10,080</b></u>	<u><b>8,765</b></u>

<b>13 Administrative Services</b>	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
		<b>restated</b>
Director's Office	1,549	1,974
External Relations	1,528	1,247
Registry	728	712
Research Grants, Contracts and Consultancies Office	1,322	1,479
Finance Office	1,051	837
Human Resources Office	1,184	994
Administrative computing system	587	313
School publications	22	25
External audit fee	48	60
Internal audit fee	84	83
Other professional fees	195	164
Unrealised foreign exchange surpluses	75	(114)
Non-premises insurance	322	377
Other	38	-
	<u><b>8,733</b></u>	<u><b>8,151</b></u>

The 2013 balances have been restated to provide greater detail of the Director's Office costs in order to be comparable to 2014.

<b>14 Maintenance of Premises</b>	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Repairs and maintenance	2,424	1,827
Energy and water costs	1,474	1,146
Rates and premises insurance	490	409
Cleaning	795	836
Reception and security	698	678
	<u><b>5,881</b></u>	<u><b>4,896</b></u>

# Notes to the Financial Statements

15 General Educational Expenditure	2014 £000	2013 £000
School scholarships	572	419
Trust Fund scholarships and prizes	587	342
Examinations	61	70
Subscriptions	191	108
Student recruitment	5	114
University of London charges	106	111
Other	63	124
	<u>1,585</u>	<u>1,288</u>

## 16 Tangible Assets

### Consolidated

	Freehold Land and Buildings £000	Leasehold Buildings £000	Equipment and Furniture £000	Total £000
<b>Cost</b>				
At 1 August 2013	78,856	7,024	10,834	96,714
Additions at cost	483	-	1,073	1,556
Disposals	-	(28)	(285)	(313)
	<u>79,339</u>	<u>6,996</u>	<u>11,622</u>	<u>97,957</u>
At 31 July 2014				
<b>Depreciation</b>				
At 1 August 2013	16,440	1,448	9,424	27,312
Charge for year	3,046	156	798	4,000
Eliminated in respect of disposals	-	-	(285)	(285)
	<u>19,486</u>	<u>1,604</u>	<u>9,937</u>	<u>31,027</u>
At 31 July 2014				
<b>Net Book Value</b>				
At 31 July 2014	<u>59,853</u>	<u>5,392</u>	<u>1,685</u>	<u>66,930</u>
At 1 August 2013	<u>62,416</u>	<u>5,576</u>	<u>1,410</u>	<u>69,402</u>

# Notes to the Financial Statements

## 16 Tangible Assets - continued

School	Freehold Land and Buildings £000	Leasehold Buildings £000	Equipment and Furniture £000	Total £000
<b>Cost</b>				
At 1 August 2013	78,856	7,024	10,834	96,714
Additions at cost	483	-	1,069	1,552
Taken to expense	-	(28)	-	(28)
Disposals	-	-	(285)	(285)
At 31 July 2014	<b>79,339</b>	<b>6,996</b>	<b>11,618</b>	<b>97,953</b>
<b>Depreciation</b>				
At 1 August 2013	16,440	1,448	9,424	27,312
Charge for year	3,046	156	797	3,999
Eliminated in respect of disposals	-	-	(285)	(285)
At 31 July 2014	<b>19,486</b>	<b>1,604</b>	<b>9,936</b>	<b>31,026</b>
<b>Net Book Value</b>				
At 31 July 2014	<b>59,853</b>	<b>5,392</b>	<b>1,682</b>	<b>66,927</b>
At 1 August 2013	62,416	5,576	1,410	69,402

(1) The School occupies a range of freehold and leasehold properties in the Bloomsbury area of London. Its principal premises in Keppel St were originally funded by a charitable gift from the Rockefeller Foundation. Other properties, and later additions to the Keppel Street building, have been funded from various sources, including the HEFCE and its predecessor organisations.

(2) The School disposed of land at Winches Farm, St Albans, Hertfordshire, which was surplus to requirements. The proceeds will be used to part finance the School's capital expenditure programme over the next four years. The consideration for the three parcels of land sold totalled £3.325m and the purchaser agreed to contribute planning costs of £375k incurred by the School in previous years. The land sold will enable the purchaser to sell adjoining land (which the purchaser owns) to a developer. The purchaser has agreed that, if the overall sale of its land exceeds a certain sum, any resultant surplus will be split equally between the purchaser and the School. The School has not recognised any potential income in relation to this in the year as the School is unable to make a reliable estimate.

# Notes to the Financial Statements

## 17 Fixed Asset Investments

### Consolidated and School

#### At valuation

	Managed funds	Other property investment	Total
	£000	£000	£000
At 1 August	4,375	700	5,075
Disposal	-	(86)	(86)
Revaluation	31	90	121
At 31 July	<u>4,406</u>	<u>704</u>	<u>5,110</u>
		<b>2014</b>	<b>2013</b>
Managed funds are represented by:		<b>£000</b>	<b>£000</b>
Equities		2,665	2,753
Fixed interest		766	223
Other		975	1,399
Sub-total		<u>4,406</u>	<u>4,375</u>

The property investment of £704k 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. During the year, the Director increased his share of equity from 27% to 36%. The additional purchase was based on the current market value of the property.

#### Investments in Subsidiaries

	2014	2013
	£	£
<b>School</b>		
<b>At cost</b>		
At 1 August	102	2
Addition/acquisition	99,900	100
At 31 July	<u>100,002</u>	<u>102</u>

Subsidiary undertakings	Country of incorporation	Principal activity	Class and Percentage of shares held
Chariot Innovations Limited	United Kingdom	Product testing	Ordinary-100%
Salus Limited	United Kingdom	Dormant	Ordinary-100%

# Notes to the Financial Statements

## 18 Endowment Asset Investments

<b>Consolidated and School</b> <i>See Note 24</i>	<b>2014</b> <b>£000</b>	<b>2013</b> <b>£000</b>
At 1 August	10,957	9,603
Additional funds invested	173	790
Increase in market value of investments	69	982
Increase/(decrease) in cash balances	85	(418)
At 31 July	<u><u>11,284</u></u>	<u><u>10,957</u></u>
Represented by:		
Managed funds:		
Equities	5,893	6,072
Fixed interest	1,694	493
Other	3,701	4,481
Sub-total	<u>11,288</u>	<u>11,046</u>
Cash balance due by the School	(4)	(89)
	<u><u>11,284</u></u>	<u><u>10,957</u></u>

## 19 Debtors

	<b>2014</b> <b>Consolidated</b> <b>£000</b>	<b>2014</b> <b>School</b> <b>£000</b>	<b>2013</b> <b>Consolidated</b> <b>£000</b>	<b>2013</b> <b>School</b> <b>£000</b>
Amounts falling due within one year:				
Research expenditure recoverable	15,532	15,532	11,449	11,449
Trade debtors	16,656	16,509	6,000	6,000
Amounts owed by group undertakings	-	35	-	-
Other debtors	36	-	-	-
Prepayments	2,914	2,914	2,660	2,660
Accrued income	852	852	1,470	1,470
	<u><u>35,990</u></u>	<u><u>35,842</u></u>	<u><u>21,579</u></u>	<u><u>21,579</u></u>

## 20 Current Asset Investments

<b>Consolidated and School</b>	<b>2014</b> <b>£000</b>	<b>2013</b> <b>£000</b>
At 1 August	5,000	-
Investment in term deposit	-	5,000
At 31 July	<u><u>5,000</u></u>	<u><u>5,000</u></u>

The investment in 2014 consists of a five month term deposit with Lloyds Bank, which matured in November 2014.

# Notes to the Financial Statements

## 21 Creditors

	2014 Consolidated £000	2014 School £000	2013 Consolidated £000	2013 School £000
<b>Amounts falling due within one year:</b>				
Unsecured bank loans	431	431	419	419
Trade creditors and accruals	13,241	13,166	7,786	7,786
Amounts owed to group undertakings	-	-	-	-
Social security and other taxation payable	1,342	1,336	1,238	1,238
Deferred income	7,847	7,847	5,431	5,431
Research grants received in advance	42,714	42,714	38,394	38,394
Other payments received in advance	616	616	909	909
	<u>66,191</u>	<u>66,110</u>	<u>54,177</u>	<u>54,177</u>

## 22 Creditors over one year

<b>Consolidated and School</b>	<b>2014 £000</b>	<b>2013 £000</b>
Analysis of unsecured bank loans:		
Due between one and two years	440	431
Due between two and five years	1,416	1,370
Due in five years or more	13,462	13,948
	<u>15,318</u>	<u>15,749</u>

The School's loan facilities consist of:

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

# Notes to the Financial Statements

## 23 Deferred Capital Grants

<b>Consolidated and School</b>	<b>Funding Council £000</b>	<b>Other £000</b>	<b>Total £000</b>
At 1 August 2013			
Buildings	31,136	5,186	36,322
Equipment	228	410	638
<b>Total at 31 July 2014</b>	<b><u>31,364</u></b>	<b><u>5,596</u></b>	<b><u>36,960</u></b>
<b>Grants Received</b>			
Buildings	974	-	974
Equipment	-	488	488
<b>Total at 31 July 2014</b>	<b><u>974</u></b>	<b><u>488</u></b>	<b><u>1,462</u></b>
<b>Released to Income and Expenditure Account</b>			
Buildings	(1,606)	(124)	(1,730)
Equipment	(79)	(286)	(365)
<b>Total at 31 July 2014</b>	<b><u>(1,685)</u></b>	<b><u>(410)</u></b>	<b><u>(2,095)</u></b>
<b>At 31 July 2014</b>			
Buildings	30,504	5,062	35,566
Equipment	149	612	761
<b>Total</b>	<b><u>30,653</u></b>	<b><u>5,674</u></b>	<b><u>36,327</u></b>

# Notes to the Financial Statements

## 24 Endowments

<b>Consolidated and School</b> <i>See Notes 5 and 18</i>	<b>Permanent Restricted</b>	<b>Permanent Unrestricted</b>	<b>Expendable Restricted</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 1 August 2013				
Capital	8,003	1,648	1,306	10,957
New endowment capital and cash	25	-	148	173
Investment income	241	49	392	682
Expenditure	<u>(273)</u>	<u>(49)</u>	<u>(275)</u>	<u>(597)</u>
	<u>(32)</u>	<u>-</u>	<u>117</u>	<u>85</u>
Transfer of income from expendable to permanent	32	-	(32)	-
Increase in market value of investments	57	12	-	69
	<u>8,085</u>	<u>1,660</u>	<u>1,539</u>	<u>11,284</u>
At 31 July 2014	<u><b>8,085</b></u>	<u><b>1,660</b></u>	<u><b>1,539</b></u>	<u><b>11,284</b></u>
<b>Represented by:</b>				
<b>Capital</b>	<u><b>8,085</b></u>	<u><b>1,660</b></u>	<u><b>1,539</b></u>	<u><b>11,284</b></u>
Representing:				
Scholarship funds	2,134	-	1,004	3,138
Prize funds	99	-	42	141
Library funds	250	-	64	314
Brass Blacker Chair	2,755	-	95	2,850
Other teaching and research funds	2,847	-	289	3,136
Other funds	-	1,660	45	1,705
	<u><b>8,085</b></u>	<u><b>1,660</b></u>	<u><b>1,539</b></u>	<u><b>11,284</b></u>

## 25 Income and Expenditure Account

	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
	<b>Consolidated</b>		<b>School</b>	
At 1 August 2013	29,029	25,584	29,029	25,584
Surplus retained for the year	6,562	3,445	6,562	3,445
At 31 July 2014	<u><b>35,591</b></u>	<u><b>29,029</b></u>	<u><b>35,591</b></u>	<u><b>29,029</b></u>



# Notes to the Financial Statements

## 26 Investment Reserve

<b>Consolidated and School</b>	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
At 1 August 2013	1,790	1,342
Revaluation in year	121	448
At 31 July 2014	<u><b>1,911</b></u>	<u><b>1,790</b></u>

This is the balance of the revaluation of the Investments shown in Note 17.

## 27 Reconciliation of Operating Surplus to Cash Flow from Operating Activities

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Surplus on continuing operations after depreciation of assets	3,226	3,444
Depreciation	4,000	3,937
Deferred capital grants released to income	(2,095)	(2,091)
Loss on disposal of fixed assets	28	-
Investment income	(792)	(628)
Interest payable	812	835
(Increase)/decrease in debtors	(11,231)	2,169
Increase in creditors under one year	12,000	2,348
<b>Cash flow from operating activities</b>	<u><b>5,948</b></u>	<u><b>10,014</b></u>

## 28 Returns on Investments and Servicing of Finance

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Income from endowments	682	265
Income from other investments	195	363
Interest paid	(812)	(835)
<b>Cash flow from returns on investments and servicing of finance</b>	<u><b>65</b></u>	<u><b>(207)</b></u>

# Notes to the Financial Statements

## 29 Capital Expenditure and Financial Investment

	2014 £000	2013 £000
Payments to acquire tangible assets	(1,556)	(1,178)
New endowments received	173	372
Endowment funds invested	(173)	(790)
Disposal of fixed assets-see note below	244	-
Deferred capital grants net of disposals	1,462	3,138
<b>Cash flow from capital expenditure and financial investment</b>	<b>150</b>	<b>1,542</b>

Total proceeds from disposal of fixed assets amount to £3,424k of which £3,180k will be received in December 2014.

## 30 Management of Liquid Resources

	2014 £000	2013 £000
Additions to short term deposits	-	(5,000)
<b>Cash flow from management of liquid resources</b>	<b>-</b>	<b>(5,000)</b>

## 31 Financing

	2014 £000	2013 £000
Repayments of amounts borrowed	(419)	(408)
<b>Cash flow from financing</b>	<b>(419)</b>	<b>(408)</b>

## 32 Analysis of Changes in Net Funds

	At 1 August 2013 £000	Cash Flows £000	Other changes £000	At 31 July 2014 £000
Cash at bank and in hand	36,649	5,659	-	42,308
Endowment assets (Note 18)	(89)	85	-	(4)
	36,560	5,744	-	42,304
Current asset investments	5,000	-	-	5,000
	41,560	5,744	-	47,304
Debts due within one year	(419)	419	(431)	(431)
Debts due after one year	(15,749)	-	431	(15,318)
	25,392	6,163	-	31,555

# Notes to the Financial Statements

## 33 Pension Schemes

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

### (a) Universities Superannuation Scheme

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

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

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

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

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

Standard mortality tables were used as follows:

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

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

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

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

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

# Notes to the Financial Statements

As part of this valuation, the trustee has determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. In 2011 the actuary estimated that if experience remained in line with the assumptions made, the shortfall at 31 March 2014 would be £2.2 billion, equivalent to a funding level of 95%.

However, changes in market conditions between March 2011 and March 2014 have had an impact on scheme funding. The next formal triennial actuarial valuation will take place as at 31 March 2014, and work is currently underway to update the actuarial assumptions and allow for any adjustments to the overall funding approach adopted by the trustee board in consultation with stakeholders.

As work on the 2014 valuation is not yet complete the trustee cannot provide the final figure. However, an estimate has been provided using the assumptions used to deliver the 2011 actuarial valuation. On that basis, the actuary has estimated that the funding level under the scheme specific funding regime will have fallen from 92% at 31 March 2011 to 85% at 31 March 2014. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investments returns and changes to market conditions.

The funding level has decreased mainly due to a decrease in real gilt yields, reducing the implied net discount rate and therefore placing a higher value on the schemes liabilities. This increase has been partially offset by a higher than expected investment return.

On the FRS17 basis, using an AA bond discount rate of 4.5% per annum based on spot yields, the actuary estimates that the funding level at 31 March 2014 was 75%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 61%.

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

Assumption	Change in assumption	Impact on shortfall
Investment return (Valuation rate of interest)	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

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 2011 valuation the Scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16% of salaries.

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

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

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

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

Flexible Retirement - Flexible retirement options were introduced.

# Notes to the Financial Statements

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%.

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

The trustee's role is to set risk and return parameters which reflect the strength of the sponsoring employers and the nature of the scheme's liabilities. These parameters, taken together with the anticipated returns from the basis of the trustee's funding strategy. These parameters are informed by advice from its internal investment team, its investment consultant and the scheme actuary, as well as an independent assessment of the support available from the sponsoring employers. The trustee remains confident that it can continue to take a long-term view of scheme funding, backed as it is by a robust Higher Education (HE) sector.

The fund is invested in a wide range of asset classes, both publicly traded (including equities and fixed income) and private (including private equity, infrastructure, property and timberland). A diversified portfolio helps to spread investment risk across different asset classes and to boost the level of confidence in maintaining sufficient investment returns from the fund as a whole. This investment approach is innovative and responsible, and targeted at achieving returns required to meet the scheme's liabilities. Recently, the trustee has invested directly in infrastructure assets. These investments are typically illiquid, but can achieve attractive inflation-linked returns in ways often not available in the publicly traded markets and which can match the scheme's liabilities to a high degree.

At 31 March 2014, USS had over 162,000 active members and the School had 998 active members participating in the scheme.

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

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

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

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

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

\* an additional allowance is made for promotional Salary increases

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

# Notes to the Financial Statements

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 2014, the School had 170 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 2014, the School had 53 active members participating in the Scheme.

## **(d) Pension costs for the year**

The total pension costs for all three schemes, which were charged to the Income & Expenditure Account, was £7,284,000 (2013: £6,536,000).

## **34 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.

Four members of Council were paid a total of £1.3k in travel and accommodation expenses for the year ended 31 July 2014 (2013: Five members were paid a total of £1.1k in travel and subsistence expenses). No payments were made to members of Council for serving as trustees and there were no waivers of such payments.

During the year, the School invoiced a subsidiary undertaking, Chariot Innovations Limited, £21k for operating costs and £44k for rent. All transactions were at arm's length. The School received a gift aid donation of £6k from Chariot Innovations Limited. At 31 July 2014, the School is owed £35k and this is disclosed in Debtors.

## **35 Access to Learning Fund**

	2014 £000	2013 £000
Grant allocation received	10	10
Grants disbursed to students	(10)	(9)
<b>Balance to be refunded to HEFCE</b>	<b>-</b>	<b>1</b>

## **36 Capital Commitments**

Commitments approved but not contracted for as at 31 July 2014 were £700k (2013: Nil).



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