



FINANCIAL
STATEMENTS
2010-11

LONDON SCHOOL OF HYGIENE
AND TROPICAL MEDICINE

Council

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

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Mr J O'Donnell, (from 8.03.11)

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The Secretary & Registrar

Ms W S SurrIDGE BA MA ACIS

Financial Statements for the Year Ended 31 July 2011

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Treasurer's Report

Introduction

The London School of Hygiene & Tropical Medicine is the UK's national school of public health, with a significant role in Europe and a world-wide reputation in tropical medicine and international public health.

These financial statements report the results of the School's activities for the year ending 31 July 2011, and have been produced in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007.

This review is intended to provide an overview of the School's finances and activities during 2010-11. It also highlights key trends or changes in the external environment which have affected the School during the year or are likely to influence future developments. The review has been prepared in accordance with the Accounting Standards Board Reporting Statement.

Results for the Year

The Income & Expenditure results for 2010-11 are summarised below:

	2010-11	2009-10
	£000	£000
Income	107,395	101,663
Expenditure	(106,532)	(98,872)
Operating surplus	863	2,791
Exceptional items:		
Termination of property lease	(1,193)	-
(Deficit)/ surplus on disposal of fixed assets	(730)	1,231
Transfer from/ (to) accumulated income within specific endowments	37	(60)
(Deficit)/ surplus for the year	(1,023)	3,962

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 its academic objectives.

The School recorded an operating surplus of £0.863m for 2010-11 and a deficit after exceptional items of £1.023m. The exceptional items relate to the costs incurred in vacating the leased properties that the School occupied at 49-51 Bedford Square. In the Autumn of 2010, the School negotiated an agreement with its landlord that allowed it to vacate the properties in January 2011, approximately 18 months ahead of the break clause in its lease. Under the agreement, the School made a surrender payment to the landlord and agreed settlement for dilapidations. The exceptional items also include a charge of £730K to write off the cost of improvements that the School had made to the houses in previous years. Vacating the properties will result in significant savings on rental and other recurrent costs in 2010-11 and 2011-12, and was a further step in the School's strategy of consolidating its estate.

The operating surplus of £0.863m is equivalent to 0.8% of income for the year. This level of surplus is lower than the £2.8m achieved in the previous year, and below the benchmark figure of 3% of income which the Higher Education Funding Council for England (HEFCE) regards as necessary to provide funds for long-term, sustainable investment. This benchmark is not necessarily an appropriate measure of the School's performance, since a significant proportion of its income from research grants and contracts (£19m, or 28% of total research income for the year) was passed on to its research partners in the UK and overseas.

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The School nevertheless needs to ensure that it is generating sufficient surpluses for investment, and the School's Planning & Finance Committee has set the target of achieving annual surpluses of between £2.5m and £3m.

The reduced operating surplus in 2010-11 reflects a number of factors, including additional operating costs associated with a major refurbishment of laboratory facilities, which were due to be fully commissioned and in use from early 2009-10. As reported in the previous financial statements, this has proved to be a particularly difficult project. During the past year further work has been needed to bring the laboratories into use and this has involved both additional operating costs and significant operational problems for important elements of the School's research. The delay in commissioning the laboratories has meant that research has had to be relocated to facilities at other institutions, which has imposed considerable demands upon researchers and support staff as well as incurring significant costs. The programme of work required to re-commission the laboratories is one of the highest priorities in the management of the School, and should be complete at the end of 2011.

Like many organisations, the School is operating in a challenging economic environment, due to the recession in the wider economy, the impact of declining investment returns on a number of major funders, and the threat of further cuts in public expenditure. Despite these pressures, the School's income from its core teaching and research activities grew during the year. This growth, together with HEFCE income resulting from its success in the 2008 Research Assessment Exercise (RAE), enabled the School to make further strategic investments in teaching, research, and support activities.

But the School, together with the rest of the higher education sector, is facing an even more challenging and uncertain financial period. Given its focus on clinical medicine and bioscience, the School has to date been less affected by cuts in HEFCE teaching grant than many universities. But future levels of funding remain unclear, and it was particularly disappointing that the Government's Higher Education White Paper - published in June 2011 - did not set out a clear strategy for the future support of postgraduate teaching, which is central to the mission of the School. Nor did the White Paper address the future funding of research. The Government is expected to publish its strategy for research and innovation later in 2011, but future levels of HEFCE funding for research are likely to be constrained. Research income – from the UK research councils, Government departments, charities and others – will also come under pressure, and competition for available funding is likely to increase.

Fortunately, the School entered this period in a relatively strong position: HEFCE grants account for 20% of total income, compared to 34% for universities as a whole; and 82% of its HEFCE recurrent funding is for research, which so far at least has been less affected by cuts in public expenditure. The quality and impact of its research also mean that it is in a stronger position than many institutions to compete for the research funding that is available.

But this uncertainty means that the School has to plan for a range of financial scenarios and ensure that its plans are sufficiently flexible to adapt to the external environment.

Vision and strategy

The School's governing Council approved a Vision Statement in November 2009.

The School is one of the world's leading centres for postgraduate teaching and research in public health and tropical medicine, and the Vision sets out objectives and key performance indicators (KPIs) for research, learning and teaching and engagement (which includes consultancy, commercialisation activities, and the continued development of the School's links with policy makers and health professionals). It also sets objectives and KPIs for the governance, management and support activities which underpin the effective operation and development of the School, and so underpin all of its academic objectives.

The School's Director took up his post in September 2010 and has recently instigated a review of the School's strategic plan. It is not anticipated that this will lead to any significant changes to the mission and high level objectives set out in the Vision Statement. Rather it is intended that the updated plan will provide a framework for assessing the School's priorities over the coming years, including investment in academic and support areas, the further development of institutional partnerships and external communication.

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Further measures to diversify the School's sources of income will be an essential part of the updated strategic plan, alongside actions to achieve cost savings whilst safeguarding the quality of the School's core activities.

The School's governing Council is contributing to the development of the strategic plan, and the final document will be submitted to Council for approval in March 2012.

As part of the development of the strategic plan, the Senior Leadership Team (SLT) will also be reviewing the School's register of the strategic risks. Key risks and KPIs will continue to be monitored by SLT, Council and its sub-committees.

Public Benefit Statement

The School is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is regulated by HEFCE on behalf of the Charity Commission for England and Wales. The School's Council serves as its trustee and is responsible for defining its strategic aims and for directing the senior management of the School in the furtherance of its mission. When setting objectives and planning activities, Council, its sub-committees and SLT give careful consideration to the Charity Commission's guidance on public benefit, and to guidance issued by HEFCE in its role as principal regulator.

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

The School was incorporated by Royal Charter in 1924, and its Charter states that the objects of the School are 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 objects, and to reducing inequalities in health and global disease burdens through research and education. Full details of the School's work are set out in its Annual Report, but the paragraphs below provide a brief summary of activities that it has undertaken during the year to pursue its mission, and which have delivered public benefit.

The School is an entirely postgraduate institution, and its teaching programme includes eighteen MSc courses offered face-to-face in London and a further five through distance learning. While comparable courses can be found in some other UK HEIs, none offers the full range or the unique international perspective available at the School. In 2010-11, these courses attracted approximately 3,500 students. Over 350 students were registered for research degrees.

During the year, the School completed the development of a new distance learning MSc course in Global Health Policy, which was launched in September 2011. This will further broaden access to UK and international students, including those whose work or family commitments make it difficult to study full-time.

The School provides scholarships to support both MSc and research degree students, and in 2010 was able to offer its first scholarships supported by the Africa London Nagasaki (ALN) fund set up to support African scientists to undertake a Master's degree. Up to four awards will be made each year for the period 2010 to 2014, and will support candidates to undertake an MSc either at the School or the Institute of Tropical Medicine, Nagasaki University, Japan. Council also undertook a review of the School's endowment funds which, subject to final approval by the Charity Commission, will release additional funds to support scholarships in future years.

The quality and relevance of the School's research programme are demonstrated by its continued success in attracting funding for major programmes from the Department of Health, the Department of International Development, the Medical Research Council, the Wellcome Trust and others. These programmes range from basic research to work which is directly relevant to public health policy and practice. The School's breadth of expertise has resulted in continued collaborations with UK Government departments, and national bodies including the Health Protection Agency and the National Institute for Health and Clinical Excellence (NICE).

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Its research programme also underpins field programmes and active research partnerships in over 100 countries, which enable the School to share expertise to support capacity building in other research and public health institutions in lower income countries.

Beyond its core activities of teaching and research, many of the School's senior medical staff hold honorary consultant contracts through which they contribute to the NHS, generally at national and strategic health authority levels. Staff have also continued to play an important national role in clinical tropical medicine through their work at the Hospital for Tropical Diseases.

Income

Total income increased in 2010-11 by 5.6%, or £5.7m in cash terms, to £107.4m.

Income from HEFCE recurrent grant reduced by £65k (0.3%) to £20.6m. Given the cuts experienced by most other universities, this was a satisfactory outcome and reflects the continued benefit of the School's outstanding success in the 2008 RAE. Research accounted for 82% of the School's HEFCE grant in 2010-11.

As noted above, HEFCE recurrent grant also constitutes a smaller proportion of the School's income (20%) than is the case for many larger, multi-faculty universities. But HEFCE funding is nevertheless critical in providing the stability that the School needs to plan effectively and to invest in the long-term development of its teaching and research. Despite the out-turn for 2010-11, significant concerns remain regarding the impact that any future cuts in HEFCE funding would have upon the School's work.

Income from tuition fees remained broadly similar in 2010-11 at £12.2m. Despite difficult economic conditions and concerns over the effect of visa restrictions, the School saw a small increase in the number of UK, EU and international students coming to study in London. The School's distance learning programme continued to grow, but net income was reduced by a significant increase in the costs of services provided by the University of London's International Programme.

Income from short courses increased by 6%, from £1.19m to £1.26m. Both the distance learning programme and short courses make an important contribution to the School's academic objectives: extending access to high quality learning and teaching to students who are unable to study on conventional, London-based programmes, disseminating the School's research, and supporting its engagement with policy-makers and practitioners. There is scope for further development in both of these areas, alongside the School's planning to increase income from activities which are less dependent on UK public funding. As part of this process the School will need to put in place a new contract for services with the University's International Programme which reflects the balance of risk and effort borne by the School and the University in developing and delivering the distance learning courses.

The School's largest element of income remains research grants and contracts, and income from these programmes rose by 8.5% to £67.8m. This level of research income is higher than in many large multi-faculty universities, and maintaining income at this level in the current climate is a further indication of the quality and relevance of the School's research. As noted above, the School secured funding for major new programmes during the year from the Department of Health, the Department of International Development, the MRC, Wellcome Trust and others. Since the end of 2010-11, the School and partners in the UK, Zambia and South Africa have been awarded funding of up to \$37m by the US National Institutes for Health and the Bill and Melinda Gates Foundation for a field trial to assess an innovative combination of strategies to prevent HIV in 24 communities.

But the substantial and sustained growth in research income achieved in previous years is unlikely to be sustained as pressures grow on many of the School's funders, and competition for available funding increases. Assessing the potential impact of changes to research funding is a key consideration for the current review of the strategic plan. Maintaining and improving cost recovery will also remain a key consideration.

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The School's income from other sources, including consultancy and other services rendered increased from £4.8m in 2009-10 to £5.2m in 2010-11. Further developing these sources of income will be another priority for the revised strategic plan.

Income from endowments and interest receivable was £0.5m in 2010-11, compared to £0.4m in the previous year. In common with most institutions with endowment funds, the School has suffered from a reduction in dividend income and historically low levels of interest rates. Income from the latter has been disappointing, given the School's large cash balances (including some significant payments in advance by research funders). The School did however benefit from a generous bequest of approximately £2.3m, which is reflected in the increase in the total value of its investment portfolio from £10m at 31 July 2010 to £13.5m at 31 July 2011. The total increase in the market value of the portfolio at 31 July 2011 was £889K, which reflected a credible performance. Investments continue to be monitored by the Investment Sub-committee.

Expenditure

Expenditure excluding depreciation and interest rose by £7.9m to £103m, an increase of 8.3% from the previous year. Staff costs remain the largest element of this expenditure, and increased by £3.3m to £53.6m (an increase of 6.7%). In part, this increase reflects the continued growth of the School's research income and therefore staff numbers (with average staff numbers increasing from 924 to 960 FTE). But the increase in staff costs also reflects the cumulative effect of the national Pay Framework Agreement, the national pay award for 2005-2008 and the 2% increase in employers' contributions to the USS pension scheme (which came into effect from October 2009).

Non-staff costs increased by 10% to £49.3m, reflecting the direct costs of externally funded research and the additional operating costs associated with capital projects. Interest charged on the loans taken out in 2007-08 to finance the purchase and refurbishment of Tavistock Place remained at £0.6m in 2010-11. The terms of the School's loan agreement provided the option to convert the utilised portion of the revolving credit facility (£6m) into a fixed-rate, long-term loan from the end of July 2011. In February 2011, the School decided to exercise this option, and the balance of the revolving credit was converted into a fixed-rate, 27 year loan at the end of July 2011. Interest charges for this fixed-rate are higher than for the revolving credit facility, which was linked to the bank's base rate. However the School is confident that converting the revolving credit was the correct strategy for the long-term, and the fixed-rate will provide certainty over future interest charges.

Investment Performance

The notes to the accounts set out full details of the School's investment funds. In general, the Investments Sub-committee has adopted a defensive strategy over the past 3-4 years, and this has lessened the impact of the down-turn in global markets. The value of the School's long-term investments - including endowments - increased from £10m at 31 July 2010 to £13.5m at 31 July 2011. As noted earlier this increase was in large part due to a generous bequest of £2.3m, which was made by John Blacker (a former member of School staff) to support a professorial post in demography.

Day-to-day management of the portfolio is the responsibility of the School's investment managers, BlackRock, and performance is regularly monitored against market benchmarks by the Investments Sub-committee.

Given the size of its portfolio, the School does not invest directly in the shares of any company, and its holdings of UK equities are made through the Charishare Tobacco Restricted Fund, which is an equity investment fund established by BlackRock for its charity sector clients. Following representations from the School, and in consultation with its other clients, BlackRock disposed of a small holding in BAe Systems during 2009-10. The School is pleased that the Fund no longer holds shares in any arms manufacturer.

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Treasury Management

The School has a written policy on the management of its short-term cash surpluses, which includes the types of investment that may be used, minimum credit ratings, credit deposit limits and a list of approved providers. The objective of the policy is to maximise the overall rate of return, consistent with the security and forecast availability of funds. Unfortunately interest rates remain at historically low levels. The School will continue to keep its policy under review to minimise its exposure to further turbulence in the banking sector.

The School retains a specialist firm, Royal London Cash Management, to manage its short-term cash deposits. Performance is monitored regularly by the Investments Sub-committee, against the benchmarks set out in the policy.

As noted above, the School's cash balances are high. This is mainly due to its success in securing payments in advance from a number of research funders, but also reflects continued efforts to manage its debts effectively and ensure that funds are reclaimed promptly from research funders and others.

Capital and Long-term Maintenance

The School's Council considered a revised Estates Strategy in June 2011. This reflected the significant investment that has been made in buildings and facilities over recent years, including the purchase and refurbishment of the Tavistock Place building and the completion of the South Courtyard development within its main Keppel Street building. Alongside these developments, the School has continued to consolidate its estate through the sale of satellite buildings and the disposal of 49-51 Bedford Square.

The updated Strategy focuses on three principal areas: the provision of accommodation necessary to support high quality teaching, research and support activities; the efficient and effective use of space; and financial and environmental sustainability. The key priority for the next planning period will be to renew the infrastructure of the Keppel Street building. A feasibility study of the proposed works was completed in March 2011, and its key findings have been considered by the School's Council and SLT. At this stage the costs of the works are estimated at £40m, although the final budget will be determined by the technical solutions adopted and the phasing of the works (which will determine the extent, duration and cost of decanting required). Given the potential scale of the project, the School has commissioned an independent technical review of the solution proposed by the feasibility study, and a high level option appraisal. The findings of this further work will be considered by Council in November 2011. It is envisaged that further work will then be needed before Council can approve a strategy for addressing the infrastructure, with a decision in the Spring of 2012. Detailed design work will then begin.

Financing for the infrastructure project will need to be considered in more detail as part of the further work following Council's meeting in November.

As noted earlier, work continued throughout 2010-11 to bring refurbished laboratories into use. The original programme of works was completed in August 2009, but a series of problems were then identified. A programme of work has been in place to address these issues, and complete re-commissioning and validation of the laboratories. The delay, uncertainty and need to provide alternative laboratory space have imposed significant costs on the School. However, work should now be complete by the end of 2011, allowing the laboratories to be brought back into use from January 2012.

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Future Developments

The School is currently budgeting for a surplus of approximately £2.6m in 2011-12, with annual surpluses in subsequent years. In part this reflects the increase in HEFCE research funding that resulted from the 2008 RAE. But the forecasts are also underpinned by the School's success with research funders and the continued development of its teaching programme, including its highly successful distance learning courses. Within these financial forecasts, the School's governing Council will continue its programme of strategic investment to support the School's academic priorities, and ensure that it remains competitive with comparable institutions in North America, Europe and, increasingly, those emerging in middle income countries.

In a difficult economic climate the School will need to be clear about its priorities for investment and continue - and where possible accelerate - its existing strategy of developing and diversifying its sources of income. Managing these financial risks will be one of the key challenges for the School's SLT and Council over the next 3-5 years, within the framework provided by the new strategic plan.

The School has already set a number of income targets, and has further increased tuition fees by 6% - 7% for all students in 2011-12. The School will need to keep tuition fees levels under review in the light of the Government's recent White Paper and proposed changes to HEFCE's funding arrangement for teaching from 2012-13. The White Paper focuses almost exclusively on provision for undergraduate students and this is clearly a key issue both for Government and the majority of higher education institutions. But it is nevertheless a concern that the Government has yet to set out any clear policy regarding postgraduate provision, and appears to have done very limited work to assess the potential impact that proposed changes at undergraduate level may have on both funding and student demand for postgraduate study.

The School's current fee levels are comparable with those of other UK institutions in public health and tropical medicine. It is unclear how wider changes to funding and student number controls will affect postgraduate fees across the UK. But the international profile of the School's students and the nature of its work mean that it will also need to consider comparators beyond the UK in any future review of its tuition fees. International students make a vital contribution to the School's teaching programme, and more than 60% of its overseas students are from low and middle income countries. Scope for increasing either recruitment or fee levels for overseas students is therefore limited. In common with many universities, the School also remains concerned that increasing visa restrictions will deter well qualified and able students from studying in the UK.

While the number of London-based students – from the UK, EU and overseas - has remained stable in recent years, demand for the School's distance learning programmes has increased significantly. There are currently five MScs offered in Clinical Trials, Epidemiology, Infectious Diseases and Public Health, and the new course in Global Health Policy launched at the start of 2011-12.

Continued investment and innovation are essential if the School is to maintain its position in an increasingly competitive international market. The School's vision for its teaching is to bring together distance learning and London-based study to provide flexible mixed-mode programmes which will address the developing needs of students and employers. This model may become increasingly attractive if 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, for example, drawing together existing materials to offer new short courses which meet the needs of particular professional groups. Support for these developments is included in the programme of strategic investment agreed by Council, with additional support coming from investment of remaining funds from the Gates Global Health Award which the School received in 2009.

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

Treasurer's Report

Research grants and contracts will remain the School's largest source of income although, as noted previously, it is unclear whether the current volume of activity will be maintained. In an increasingly competitive environment, maintaining and improving current rates of cost recovery will also be essential. Given the focus of its 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). But, pending the Government's forthcoming strategy for research and innovation, it is unclear whether this funding will be maintained in future years.

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 revised strategic plan, the School may nevertheless need to take an explicit view on the volume of research undertaken on behalf of certain sponsors. Whether strategically, or on a case by case basis, this may include taking action to limit activity and proposal submissions in certain areas where indirect costs are not recovered. The School's priority will be to maintain research of the highest international standards, where it 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 the School's preparations for the Research Excellence Framework (REF), due to take place in the Autumn of 2013.

Given the growth that has been achieved in research and distance learning over recent years, generating additional income from third stream activities has not been regarded as a high priority. But this is an area that the School will look to develop as an important element of the strategic plan. In particular, the School will look to strengthen its relationships with the private sector and industry where this can advance scientific knowledge and enable the School to capitalise on its intellectual property to secure benefits for the health of populations. This has become an increasing focus for the Planning & Finance Committee, and recent changes in membership should support the School in identifying and exploiting future opportunities.

As noted earlier, the first priority for the next phase of the capital programme will be renewing the infrastructure of the Keppel Street building. The School has also held initial discussions with University College London regarding the possible development of a joint laboratory facility to support the work of the new Bloomsbury Institute for Pathogen Research (BIPR). The BIPR will provide a focus for collaborative research and teaching on infectious diseases, and will be formally launched in November 2011. Development of a joint facility is a longer-term ambition, and would require significant investment from both partners. Discussions will continue during 2011-12 in order to clarify the potential scale and nature of a joint facility, and to identify potential further partners and sources of funding.

During 2010-11 the School was granted planning permission with Hertfordshire County Council for the development of surplus land which the School owns in St Albans (the site of a former research station). The development has the potential to generate a capital receipt to support the infrastructure project or other priorities. Work is now underway to develop a landowner agreement between the School and the County Council. Marketing of the site will begin once this agreement is in place.

The London International Development Centre was launched in 2008, as a joint initiative between the School and the other members of the Bloomsbury Colleges. The Centre builds on the complementary expertise of the partner colleges in areas related to international development. During its first four years, it has received support from HEFCE's Strategic Development Fund (SDF) and a business plan is in place to ensure that it will then become self-financing from research and teaching activities. A review of LIDC's activities and future strategy has recently begun and will be completed early in 2012.

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The review will need to consider the implications of the School of Pharmacy's decision to withdraw from LIDC in January 2012, following its merger with UCL. However, the Centre has made good progress and has secured funding for a major research project - a highly competitive award of £3.5 million from the Leverhulme Trust – which began in 2009-10. The Colleges will also continue to work together on other academic initiatives, including a joint scholarship programme for PhD students. The Colleges also collaborate in non-academic areas, where there is the potential to enhance services. Options for further collaboration are currently under discussion.

In brief, there remains a real risk that the School's funding will be adversely affected by reductions in public expenditure and that funding by charities and other funders will be similarly constrained. However, the School is confronting these risks from a sound financial position and with a strong balance sheet. The School has made further progress towards achieving its long-term strategy of consolidating its estate, although the potential cost and disruption associated with work on the infrastructure of the Keppel Street building will be a significant risk over the coming years. The School's Council and SLT will need to manage these risks carefully, and balance the demands of this project with the need to continue investment in academic initiatives which will both support its mission and strategic plan, and also help to mitigate the impact of any future cuts in public funding.



J Pethick
Treasurer
22 November 2011

Corporate Governance

Corporate Governance Statement

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

The School is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993, and has regard to the Charity Commission's guidance on public benefit. The Operating and Financial Review on pages 2 to 10 of these Financial Statements describes the School's principal activities during the year ended 31 July 2011, including how it has delivered its charitable purposes for public benefit.

The School is committed to exhibiting best practice in all aspects of corporate governance. Throughout the year covered by these financial statements, the School complied with the Governance Code of Practice published by the Committee of University Chairmen (CUC). The School's governing body reviewed the School's compliance with the Code in September 2010.

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

Statement of Internal Control

The Council is responsible for the School's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable not absolute assurance against material misstatement or loss.

The Council is of the view that there is an ongoing process for identifying, evaluating and managing the School's significant risks, which has been in place for the year ended 31 July 2011 and up to the date of the approval of the accounts. A revised register of the School's strategic risks was adopted by Council in November 2009, based upon the School's Vision Statement (revised strategic plan). Embedding risk management at the levels of strategy, operations and systems is an ongoing process, and Council therefore undertakes an annual review of the School's risk management arrangements. Council's next review will take place in November 2011.

Summary of the School's Structure of Corporate Governance

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

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

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

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

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

Council meets four times a year and has several committees, including a Planning & Finance Committee, an Audit Committee, a Remuneration Committee, and a Membership Committee. Council delegates a number of functions to these committees which are formally constituted with terms of reference and include members of Council, one of whom is the Chair. The senior forum for consideration of all academic matters is the Senate, which includes representatives of senior and junior members of academic staff from across the School together with professional support staff members and student representatives. The Senate reports to Council following each meeting.

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

Corporate Governance

The Audit Committee is responsible for meeting four times annually with the External Auditors and Internal Auditors of the School. The Committee considers detailed reports together with recommendations for the improvement of the School's systems of internal control, and management's response and implementation plans. It also considers reports from the HEFCE and other School funders as they affect the School's business, and monitors adherence with the regulatory requirements. The Committee adopts a risk-based approach to internal audit planning and the internal audit work undertaken in the year ended 31 July 2011 has been governed by this approach. The Committee reviews the School's Annual Financial Statements together with the accounting policies. Whilst senior executives attend meetings of the Audit Committee as necessary, they are not members of the Committee. The Committee produces an annual report to Council covering all aspects of its work.

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

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

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

During the year ended 31 July 2011 there were no related party transactions involving members of Council or senior officers. The lay members of Council do not receive any payment for the work they do for the School, apart from the reimbursement of expenses.

LSHTM Council: Statement of Primary Responsibilities

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

Strategy

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

Controls

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

Performance

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

Corporate Governance

Values

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

Conflicts of Interest

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

Personal Liability

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

(This is general guidance and not a statement of the law)

Membership and Committees

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

Academic

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

Staff

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

Corporate Governance

Safety

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

Equal Opportunities

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

Financial

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

Estates

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

Legal Compliance

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

Approved November 2007; Revised June 2009.

Responsibilities of the Council

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

1. Under the School's Charter the Council has appointed a Planning & Finance Committee *inter alia* to:
 - (i) approve and recommend to the Council the School's annual budget and longer-term financial projections and to monitor performance against budget;
 - (ii) submit the School's Financial Statements to the Council for approval; and
 - (iii) approve systems of internal financial control and accounting.
2. In causing the Financial Statements to be prepared, the Planning & Finance Committee, on behalf of the Council, seeks to ensure that:
 - (i) suitable accounting policies are selected and then applied consistently;
 - (ii) judgements and estimates are made that are reasonable and prudent;
 - (iii) applicable accounting standards and statements of recommended practice have been followed, subject to any material departures disclosed and explained in the Financial Statements;
 - (iv) the Financial Statements are prepared on the going concern basis unless it is inappropriate to presume that the School will continue to operate as an institution providing teaching and research, and
 - (v) The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the School and enable it to ensure that the financial statements are prepared in accordance with the School's Charter and Statute, the Statement of Recommended Practice: Accounting for Further and Higher Education, and United Kingdom Generally Accepted Accounting Practice. In addition, within the terms and conditions of the Financial Memorandum agreed between the Higher Education Funding Council for England and the Council, the Council, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view, in accordance with UK GAAP, of the state of affairs of the School and of the surplus or deficit and cash flows for that year.
3. On behalf of the Council, the Planning & Finance Committee is responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the School and enable it to ensure that the Financial Statements comply with the Financial Memorandum between the Higher Education Funding Council for England and the School. It is also responsible for ensuring that the assets of the School are safeguarded.
4. The Audit Committee is responsible for reviewing the effectiveness of internal control systems and thereby ensuring that controls are in place to prevent and detect fraud or other irregularities. The Committee reviews whether satisfactory arrangements are in place to promote economy, efficiency and effectiveness and monitors the performance and effectiveness of external and internal audit. The Committee also ensures that there are adequate and effective arrangements in place for risk management.
5. The Council has taken reasonable steps to:
 - (i) ensure that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given and in accordance with the Financial Memorandum between the Higher Education Funding Council for England and the School and any other conditions which the Funding Council may from time to time prescribe;
 - (ii) ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
 - (iii) ensure that there is an ongoing process for identifying, evaluating and managing the School's significant risks;
 - (iv) safeguard the assets of the School and to prevent and detect fraud, and
 - (v) secure the economical, efficient and effective management of the School's resources and expenditure.

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

We have audited the School financial statements (the "financial statements") of the London School of Hygiene and Tropical Medicine for the year ended 31 July 2011 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the School Council and auditor

As explained more fully in the Responsibilities of the Council statement on page 15, the Council is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the affairs of the School as at 31 July 2011 and of the School's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

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

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

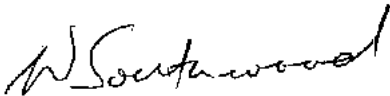
In our opinion, in all material respects:

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

Matters on which we are required to report by exception

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

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



W Southwood

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

28 November 2011

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

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

Statement of Principal Accounting Policies

1. Basis of preparation

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

2. Basis of accounting

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

3. Recognition of income

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

4. Operating leases

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

5. Pension schemes

The School's employees participate in three defined benefit schemes which are contracted out of the State Second Pension (S2P) - the Universities' Superannuation Scheme (USS), the Superannuation Arrangements of the University of London (SAUL), both of which are externally funded schemes, and the National Health Service Scheme which is unfunded. Because of the mutual nature of USS and SAUL, the schemes' assets are not hypothecated to individual institutions and instead a scheme-wide contribution rate is set. The School is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The School therefore, as required by FRS 17 "Retirement Benefits" accounts for the pension schemes as if they were defined contribution schemes. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period. (See Note 31 to the Accounts).

Statement of Principal Accounting Policies

6. Tangible fixed assets

Freehold Land and Buildings

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

The School has a policy of depreciating freehold buildings, and major adaptations to buildings, over their expected useful economic life to the School of between 25 and 50 years. Long leasehold buildings are depreciated over a useful economic life of 50 years irrespective of the length of the lease. Short-leasehold properties, where the lease is less than 50 years in length, are depreciated over the life of the lease.

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

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

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

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

Fixtures and fittings

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

Equipment and furniture

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

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

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

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

7. Investments

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

8. Cash flows and liquid resources

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

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

Statement of Principal Accounting Policies

9. Endowment funds

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

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

10. Provisions

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

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

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

11. Financial instruments

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

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

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

12. Taxation status

The School is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Taxes Act (ICTA) 1988. Accordingly, the School is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the ICTA 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes. The School is partially exempt for the purposes of Value Added Tax (VAT) and is only able to reclaim a small element of VAT charged on purchases of goods and services.

13. Foreign currency translation

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

14. Subsidiary company

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

Statement of Principal Accounting Policies

15. London International Development Centre

The School, along with five 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 9 to the Accounts).

Income and Expenditure Account for the Year ended 31 July 2011

	Notes	2011 £000	2010 £000
INCOME			
Funding council grants	1	21,754	21,851
Tuition fees	2	12,207	12,173
Research grants and contracts	3	67,785	62,460
Other income	4	5,188	4,798
Endowment and investment income	5	461	381
Total income		107,395	101,663
EXPENDITURE			
Staff costs	6	53,567	50,221
Other operating expenses	8	49,363	44,847
Depreciation	14	2,997	3,198
Interest payable	7	605	606
Total expenditure		106,532	98,872
Operating surplus after depreciation of tangible fixed assets at cost and before exceptional item			
		863	2,791
Exceptional item - termination of property lease	14	(1,193)	-
Operating (deficit)/ surplus			
		(330)	2,791
(Deficit)/ surplus on disposal of fixed assets	14	(730)	1,231
(Deficit)/ surplus after exceptional item and disposal of fixed assets		(1,060)	4,022
Transfer from/ (to) accumulated income within restricted endowments	22	37	(60)
(Deficit)/ surplus for the year retained within general reserves	23	(1,023)	3,962

The income & expenditure account is in respect of continuing activities

Statement of Total Recognised Gains and Losses for the Year ended 31 July 2011

	Notes	2011 £000	2010 £000
(Deficit)/ surplus on continuing operations after depreciation of assets at cost and before disposal of fixed assets.		(330)	2,791
(Deficit)/ surplus on disposal of fixed assets		(730)	1,231
Increase/ (decrease) in value of fixed asset investments chargeable to investment reserve	15	265	250
Increase in value of endowment asset investments	16	622	441
New endowments	22	2,424	-
Total recognised gains for the year		<u>2,251</u>	<u>4,713</u>
Reconciliation			
Opening reserves and endowments		32,427	27,714
Total recognised gains for the year		2,251	4,713
Closing reserves and endowments		<u>34,678</u>	<u>32,427</u>

Balance Sheet as at 31 July 2011

	Notes	2011 £000	2010 £000
Fixed Assets			
Tangible assets	14	75,745	75,482
Investments	15	4,738	3,616
		<u>80,483</u>	<u>79,098</u>
Endowment Asset Investments	16	<u>9,449</u>	<u>6,440</u>
Current Assets			
Stocks		-	23
Debtors	17	19,735	19,901
Investments	18	5,000	-
Cash at bank and in hand		30,677	33,563
		<u>55,412</u>	<u>53,487</u>
Creditors: amounts falling due within one year	19	(57,933)	(52,445)
Net Current (Liabilities)/ Assets		<u>(2,521)</u>	<u>1,042</u>
Creditors: amounts falling due after more than one year	20	(16,576)	(16,784)
NET ASSETS		<u>70,835</u>	<u>69,796</u>
Represented by:			
Deferred Capital Grants	21	<u>36,157</u>	<u>37,369</u>
Endowments			
Permanent restricted	22	7,936	5,026
Permanent unrestricted	22	1,513	1,414
		<u>9,449</u>	<u>6,440</u>
Reserves			
Income and expenditure account	23	23,776	24,799
Investment Reserve	24	1,453	1,188
		<u>25,229</u>	<u>25,987</u>
TOTAL		<u>70,835</u>	<u>69,796</u>

The Financial Statements on pages 18 to 45 were approved by the Council on 22 November 2011 and signed on its behalf by:



Professor Baron Peter Piot
Director



Sir Tim Lankester
Chairman, Council

Cash Flow Statement

	Notes	2011 £000	2010 £000
Net cash inflow from operating activities	25	6,786	13,879
Returns on investments and servicing of finance	26	(144)	(225)
Capital expenditure and financial investment	27	(4,507)	4,948
Management of liquid resources	28	(5,000)	-
Financing	29	(83)	-
(Decrease)/ increase in cash in the year	30	<u>(2,948)</u>	<u>18,602</u>

Reconciliation of Net Cash Flow to Movement in Net Funds

		2011 £000	2010 £000
(Decrease)/ increase in cash in the year		(2,948)	18,602
Increase in short term deposits	28	5,000	-
Decrease in debt		83	-
Change in net funds		2,135	18,602
Net funds at 1 August		16,623	(1,979)
Net funds at 31 July	30	<u>18,758</u>	<u>16,623</u>

Notes to the Accounts

1	Funding Council Grants			
	<i>Higher Education Funding Council for England</i>	Notes	2011	2010
			£000	£000
	Recurrent grants		20,089	20,494
	Specific grants		541	201
	Release of deferred capital grants			
	Buildings	21	842	842
	Equipment	21	282	314
			<u>21,754</u>	<u>21,851</u>
2	Tuition Fees		2011	2010
			£000	£000
	Fees from full-time students charged UK fees		1,816	1,635
	Fees from full-time students charged overseas fees		4,519	4,221
	Fees from students charged part-time fees		740	659
	Research training support grants		30	300
	Fees from students on short courses		1,259	1,187
	Fees from distance learning courses		3,843	4,171
			<u>12,207</u>	<u>12,173</u>
3	Research Grants and Contracts		2011	2010
			£000	£000
	UK research councils		6,627	6,416
	UK charities		15,768	13,732
	UK government departments and health authorities		10,881	11,110
	UK other		1,462	1,498
	EU Commission and other government bodies		5,487	4,185
	EU other		538	1,008
	Charities based outside the UK		19,343	18,573
	Industry and commerce outside the EU		2,934	1,965
	Other sources outside the EU		4,745	3,973
			<u>67,785</u>	<u>62,460</u>

Notes to the Accounts

4	Other Income	Notes	2011	2010
			£000	£000
	Research consultancy		999	864
	Other non-research grant income		415	393
			<u>1,414</u>	<u>1,257</u>
	Other services rendered		1,670	1,822
	Other general income		1,816	1,420
			<u>3,486</u>	<u>3,242</u>
	Refectory		288	299
			<u>5,188</u>	<u>4,798</u>
5	Endowment and Investment Income		2011	2010
			£000	£000
	Transferred from restricted endowments	22	206	208
	Income from unrestricted endowment asset investments	22	37	52
	Income from other investments		218	121
			<u>461</u>	<u>381</u>

Notes to the Accounts

6 Staff	2011	2010
	£000	£000
Staff Costs:		
Wages and salaries	44,034	41,311
Social security costs	3,499	3,268
Other pension costs (Note 31)	6,034	5,642
	<u>53,567</u>	<u>50,221</u>
Emoluments of the Director:	£000	£000
Professor Peter Piot		
Salary and benefits	287	-
Pension contribution to USS	30	-
	<u>317</u>	<u>-</u>
Professor A P Haines		
Salary	42	258
Pension contribution to NHSPS	6	36
	<u>48</u>	<u>294</u>
Total emoluments	<u>365</u>	<u>294</u>

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

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

	Number	Number
£100,000 - £109,999	5	6
£110,000 - £119,999	4	5
£120,000 - £129,999	2	2
£130,000 - £139,999	2	-
£140,000 - £149,999	2	2
£150,000 - £159,999	-	-
£160,000 - £169,999	2	1
£170,000 - £179,999	3	4
£180,000 - £189,999	1	1
	<u>21</u>	<u>21</u>

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

	Number	Number
Teaching and Research staff in academic departments	549	516
Support staff in academic departments	201	205
Academic services	95	89
Administration	88	86
Premises	23	23
Other	4	5
	<u>960</u>	<u>924</u>

Notes to the Accounts

	2011	2010
	£000	£000
7 Interest		
Loans wholly repayable within five years	40	40
Loans repayable wholly or partly in more than five years	565	566
	<u>605</u>	<u>606</u>

8 Staff Costs and Other Operating Expenses

	Notes	2011			2010		
		£000	£000	£000	£000	£000	£000
		Total	Staff	Other	Total	Staff	Other
Academic Departments:							
General funds		17,335	15,503	1,832	17,391	15,299	2,092
Projects:							
Research grants and contracts		60,642	26,798	33,844	55,946	24,848	31,098
Consultancy agreements		657	545	112	533	454	79
Other grants		263	176	87	311	194	117
		<u>61,562</u>	<u>27,519</u>	<u>34,043</u>	<u>56,790</u>	<u>25,496</u>	<u>31,294</u>
Total departmental expenditure		<u>78,897</u>	<u>43,022</u>	<u>35,875</u>	<u>74,181</u>	<u>40,795</u>	<u>33,386</u>
Academic services	10	8,441	4,643	3,798	6,747	4,169	2,578
Administrative services	11	7,019	4,406	2,613	6,137	4,043	2,094
Maintenance of premises	12	5,783	866	4,917	5,005	886	4,119
Operating leases (rent)		362	-	362	815	-	815
Equipment and furniture		386	-	386	505	-	505
Refectory		359	186	173	328	175	153
Severance costs		294	294	0	26	18	8
General educational expenditure	13	1,211	100	1,111	980	91	889
Student and staff facilities		130	49	81	129	43	86
Other expenditure		131	1	130	222	1	221
Recoverable input VAT		(83)	-	(83)	(7)	-	(7)
		<u>102,930</u>	<u>53,567</u>	<u>49,363</u>	<u>95,068</u>	<u>50,221</u>	<u>44,847</u>

Notes to the Accounts

	2011	2010
	£000	£000
9 London International Development Centre		
Income from HEFCE	137	250
Other income	103	-
Expenditure	(240)	(250)
Net	<u>-</u>	<u>-</u>
Buildings at historic cost	2,960	2,960
Depreciation to date	(237)	(178)
Net book value at 31 July	<u>2,723</u>	<u>2,782</u>

The School is the lead college for the London International Development Centre (LIDC), which is a joint arrangement among six 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.

	2011	2010
	£000	£000
10 Academic Services		
Library	1,493	1,406
Network Support Team	1,643	1,422
Biological Services Unit	810	377
Electron Microscopy & Histopathology Unit	54	50
Supplies Unit	195	201
Safety	197	175
Teaching Support	3,576	2,708
Senior Management Team	7	10
Alumni Office	92	93
Staff Development	277	239
Clinical Trials Support	97	66
	<u>8,441</u>	<u>6,747</u>

Notes to the Accounts

	2011	2010
	£000	£000
11 Administrative Services		
Director's Office	1,504	1,258
Secretary's Office	382	377
Registry	675	656
Research Grants, Contracts and Consultancies Office	1,328	1,061
Finance Office	723	712
Personnel Office	643	602
Administrative computing system	374	268
School publications	75	74
External audit fee	47	44
Internal audit fee	94	121
Other professional fees	623	374
Unrealised foreign exchange losses	207	180
Non-premises insurance	344	410
	<u>7,019</u>	<u>6,137</u>

	2011	2010
	£000	£000
12 Maintenance of Premises		
Repairs and maintenance	2,813	2,240
Energy and water costs	1,018	1,010
Rates and premises insurance	393	312
Cleaning	901	827
Reception and security	658	616
	<u>5,783</u>	<u>5,005</u>

Notes to the Accounts

	2011	2010
	£000	£000
13 General Educational Expenditure		
School scholarships	576	469
Trust Fund scholarships and prizes	216	116
Examinations	78	100
Subscriptions	103	86
Student recruitment	106	105
University of London charges	95	83
Other	37	21
	<u>1,211</u>	<u>980</u>

Notes to the Accounts

14 Tangible Assets

	Freehold Land and Buildings £000	Leasehold Buildings £000	Equipment and Furniture £000	Assets in Progress £000	Total £000
Cost					
At 1 August	67,846	8,708	10,098	8,571	95,223
Additions at cost	46	-	502	3,441	3,989
Transfers	137	-	-	(137)	-
Disposals	-	(1,712)	(215)	-	(1,927)
	<u>68,029</u>	<u>6,996</u>	<u>10,385</u>	<u>11,875</u>	<u>97,285</u>
Depreciation					
At 1 August	9,546	1,941	8,254	-	19,741
Charge for year	1,977	167	853	-	2,997
Eliminated in respect of disposals	-	(982)	(216)	-	(1,198)
	<u>11,523</u>	<u>1,126</u>	<u>8,891</u>	<u>-</u>	<u>21,540</u>
Net Book Value					
At 31 July	<u>56,506</u>	<u>5,870</u>	<u>1,494</u>	<u>11,875</u>	<u>75,745</u>
At 1 August	58,300	6,767	1,844	8,571	75,482

- (a) The School occupies a range of freehold and leasehold properties in the Bloomsbury area of London. Its principal premises in Keppel St were originally funded by charitable gift from the Rockefeller Foundation. Other properties, and later additions to the Keppel Street building, have been funded from various sources, including the HEFCE and its predecessor organisations.
- (b) During the year, the School exercised the option to terminate the operating lease over the property at 49-51 Bedford Square which resulted in an exceptional charge of £1,193,000. The amounts shown above under disposals of leasehold buildings, relate to the residual value of improvements carried out at 49-51 Bedford Square which were not fully depreciated at the date of terminating the lease.
- (c) The costs shown under "Assets in Progress" relate to the upgrade of laboratory facilities.
- (d) The School owns land at Winches Farm, St Albans, Hertfordshire, which is surplus to requirements. During 2010-11 the local authorities approved a change of use which will allow the land to be sold.

Notes to the Accounts

15 Fixed Asset Investments

	2011	2010
	£000	£000
At 1 August	3,616	3,366
Additions to investments	857	-
Revaluation	265	250
	<u>4,738</u>	<u>3,616</u>
Represented by:		
Managed funds:		
Equities	2,032	1,787
Fixed interest	321	383
Other	<u>1,685</u>	<u>1,446</u>
Sub-total	4,038	3,616
Other property investment	<u>700</u>	<u>-</u>
	<u>4,738</u>	<u>3,616</u>

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

16 Endowment Asset Investments

See Note 22

	2011	2010
	£000	£000
At 1 August	6,440	5,939
Additional funds invested	2,449	87
Increase/ (decrease) in market value of investments	622	441
(Decrease)/ increase in cash balances	(62)	(27)
	<u>9,449</u>	<u>6,440</u>
Represented by:		
Managed funds:		
Equities	4,755	3,154
Fixed interest	750	676
Other	<u>3,946</u>	<u>2,550</u>
Sub-total	9,451	6,380
Cash balance (due to)/ held by the School	(2)	60
	<u>9,449</u>	<u>6,440</u>

Notes to the Accounts

17 Debtors

	2011	2010
	£000	£000
Amounts falling due within one year:		
Research expenditure recoverable	9,282	5,868
Trade debtors	6,788	10,331
Prepayments	1,469	1,483
Accrued income	2,196	2,219
	19,735	19,901

18 Current Asset Investments

	2011	2010
	£000	£000
At 1 August	-	-
Investment in term deposit	5,000	-
	5,000	-

The investment consists of a six month term deposit with Lloyds Bank, maturing in January 2012.

19 Creditors

	2011	2010
	£000	£000
Amounts falling due within one year:		
Unsecured bank loans	341	216
Trade creditors and accruals	11,231	8,620
Social security and other taxation payable	1,205	1,190
Deferred income	3,958	2,456
Research grants received in advance	39,345	38,064
Other payments received in advance	1,853	1,899
	57,933	52,445

Notes to the Accounts

20 Creditors over one year

	2011	2010
	£000	£000
Analysis of unsecured bank loans:		
Due between one and two years	408	310
Due between two and five years	1,291	1,028
Due in five years or more	14,877	15,446
	<u>16,576</u>	<u>16,784</u>

In July 2011 the School exercised the option to convert £6 million which had been utilised from its short-term loan facility of £14 million, to an amortising term loan. The balance of the £14 million short-term facility was not utilised and expired at the end of July 2011.

The School's loan facilities consist of:

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

Notes to the Accounts

21 Deferred Capital Grants

	Funding Council £000	Other £000	Total £000
At 1 August			
Buildings	30,394	5,534	35,928
Equipment	916	525	1,441
Total	<u>31,310</u>	<u>6,059</u>	<u>37,369</u>
Grants Received			
Buildings	182	25	207
Equipment	-	157	157
Total	<u>182</u>	<u>182</u>	<u>364</u>
Released to Income and Expenditure Account			
Buildings	(842)	(124)	(966)
Equipment	(282)	(328)	(610)
Total	<u>(1,124)</u>	<u>(452)</u>	<u>(1,576)</u>
Buildings	29,734	5,435	35,169
Equipment	634	354	988
Total	<u>30,368</u>	<u>5,789</u>	<u>36,157</u>

Notes to the Accounts

22 Endowments

See Notes 5 and 16

	Permanent Restricted £000	Permanent Unrestricted £000	Total £000
At 1 August			
Capital	4,386	1,414	5,800
Accumulated income	640	-	640
	<u>5,026</u>	<u>1,414</u>	<u>6,440</u>
New endowment capital	2,424		2,424
Investment income	206	37	243
Expenditure	(243)	(37)	(280)
Increase in market value of investments	523	99	622
	<u>7,936</u>	<u>1,513</u>	<u>9,449</u>
Represented by:			
Capital	7,333	1,513	8,846
Accumulated income	603	-	603
	<u>7,936</u>	<u>1,513</u>	<u>9,449</u>
Representing:			
Scholarship funds	2,181	-	2,181
Prize funds	137	-	137
Brass Blacker Chair	2,450	-	2,450
Other teaching and research funds	2,880	-	2,880
Other funds	288	1,513	1,801
	<u>7,936</u>	<u>1,513</u>	<u>9,449</u>

23 Income and Expenditure Account

	2011 £000	2010 £000
At 1 August	24,799	20,837
(Deficit)/ surplus retained for the year	(1,023)	3,962
	<u>23,776</u>	<u>24,799</u>

Notes to the Accounts

24 Investment Reserve

	2011	2010
	£000	£000
At 1 August	1,188	938
Revaluation in year	265	250
	<u>1,453</u>	<u>1,188</u>

This is the balance of the revaluation of the Investments shown in Note 15

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

	2011	2010
	£000	£000
(Deficit)/ surplus on continuing operations after depreciation of assets at valuation	(330)	2,791
Depreciation	2,997	3,198
Deferred capital grants released to income	(1,576)	(1,720)
Investment income	(461)	(381)
Interest payable	605	606
Decrease in stocks	23	12
Decrease in debtors	166	2,722
Increase in creditors under one year	5,487	6,867
Decrease in creditors over one year	(125)	(216)
Cash flow from operating activities	<u>6,786</u>	<u>13,879</u>

26 Returns on Investments and Servicing of Finance

	2011	2010
	£000	£000
Income from endowments	243	260
Income from other investments	218	121
Interest paid	(605)	(606)
Cash flow from returns on investments and servicing of finance	<u>(144)</u>	<u>(225)</u>

Notes to the Accounts

27 Capital Expenditure and Financial Investment

	2011	2010
	£000	£000
Payments to acquire tangible assets	(3,989)	(6,813)
New endowments received	2,424	-
Endowment funds invested	(2,449)	(87)
Additions to fixed asset investments	(857)	-
Proceeds from sales of fixed assets	-	1,823
Deferred capital grants net of disposals	364	10,025
Cash flow from capital expenditure and financial investment	(4,507)	4,948

28 Management of Liquid Resources

	2011	2010
	£000	£000
Additions to short term deposits	(5,000)	-
Cash flow from management of liquid resources	(5,000)	-

29 Financing

	2011	2010
	£000	£000
Repayments of amounts borrowed	(83)	-
Cash flow from financing	(83)	-

30 Analysis of Changes in Net Funds

	At		At
	1 August 2010	Cash Flows	31 July 2011
	£000	£000	£000
Cash at bank and in hand	33,563	(2,886)	30,677
Endowment assets (Note 16)	60	(62)	(2)
Current asset investments	-	5,000	5,000
	<u>33,623</u>	<u>2,052</u>	<u>35,675</u>
Debts due within one year	(216)	(125)	(341)
Debts due after one year	(16,784)	208	(16,576)
	<u>16,623</u>	<u>2,135</u>	<u>18,758</u>

Notes to the Accounts

31 Pension Schemes

The School's employees participate in three pension schemes. The majority of contributions are paid to the Universities Superannuation Scheme (USS) and the Superannuation Arrangements of the University of London (SAUL), which are defined benefit schemes whose assets are held in separate trustee-administered funds. Contributions are also made to the National Health Service Pension Scheme on behalf of clinical staff.

Universities Superannuation Scheme

The Universities Superannuation Scheme (USS) is 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; one is appointed by the Higher Education Funding Councils; and a minimum of two and a maximum of four are co-opted directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

Because of the mutual nature of the scheme the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The institution 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 and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. 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.

The latest triennial actuarial valuation of the scheme was at 31 March 2008. This was the first valuation for USS under the new 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 2011 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 6.4% per annum (which includes an additional investment return over gilts of 2% per annum), salary increases would be 4.3% per annum (plus 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 3.3% per annum.

Standard mortality tables were used as follows:

Male members' mortality	PA92 MC YoB tables — rated down 1 year
Female members' mortality	PA92 MC YoB tables - No age rating

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 assumed life expectations on retirement at age 65 are:

Males (females) currently aged 65	22.8 (24.8) years
Males (females) currently aged 45	24.0 (25.9) years

At the valuation date, the value of the assets of the scheme was £28,842.6 million and the value of the scheme's technical provisions was £28,135.3 million indicating a surplus of £707.3 million. The assets therefore were sufficient to cover 103% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Notes to the Accounts

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 71%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 107% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 79% 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 6.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%.

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 except that the valuation rate of interest assumed asset outperformance over gilts of 1.7% per annum (compared to 2% per annum for the technical provisions) giving a discount rate of 6.1% per annum; also 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.

The scheme-wide contribution rate required for future service benefits alone at the date of the valuation was 16% of pensionable salaries and the trustee company, on the advice of the actuary, agreed to increase the institution contribution rate to 16% of pensionable salaries from 1 October 2009.

Since 31 March 2008 global investment markets have continued to fluctuate and at 31 March 2011 the market's assessment of inflation has increased slightly. The government has also announced a change to the inflation measure used in determining the "Official Pensions Index" from the Retail Prices Index to the Consumer Prices Index. The actuary has taken all this into account in his funding level estimates at 31 March 2011 by reducing the assumption for pension increases from 3.3% pa to 2.9% pa. the actuary has estimated that the funding level as at 31 March 2011 under the scheme specific funding regime had fallen from 103% to 98% (a deficit of circa £700 million). Over the past twelve months, the funding level has improved from 91% as at 31 March 2010, to 98%. This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the three years and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions). The next formal valuation is at 31 March 2011 and this will incorporate updated assumptions agreed by the trustee company.

With effect from 1 October 2011, new joiners to the scheme will join the new revalued benefits section rather than the existing final salary section. This change will have an impact, expected to be positive, on the future funding levels.

On the FRS17 basis, 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 86%. An estimate of the funding level measured on a buy-out basis at that date was approximately 54%.

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

Assumption	Change in assumption	Impact on scheme liabilities
Valuation rate of interest	Increase/decrease by 0.5%	Decrease/Increase by £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £1.5 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.7 billion
Rate of mortality	More prudent assumption (move to long cohort future improvements from the medium cohort adopted at the valuation)	Increase by £1.6 billion

Notes to the Accounts

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 believes that over the long-term, equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a major exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be theoretically possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee needs to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities.

Before deciding what degree of investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, its investment consultant and the scheme actuary, and considers the views of the employers. The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate although the trustee is mindful of the desirability of keeping the funding level on the scheme's technical provisions to or above 100% thereby minimizing the risk of the introduction of deficit contributions. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

The formal triennial actuarial valuation as at 31 March 2011 will incorporate allowance for scheme benefit changes and any changes the trustee makes to the underlying actuarial assumptions. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently. The contribution rate payable by the School in the year to 31 July 2011 was 16% of pensionable salaries.

At 31 March 2011, USS had over 142,000 active members and the School had 757 active members participating in the scheme.

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

The School participates in SAUL, which is a centralised defined benefit scheme with the assets held in separate Trustee-administered funds. At 31 March 2011 the School had 162 active members participating in the scheme. It is not possible to identify the School's share of the underlying assets and liabilities of SAUL. Therefore contributions are accounted for as if SAUL were a defined contribution scheme and pension costs are based on the amounts actually paid (ie cash amounts) in accordance with paragraphs 8 – 12 of FRS17.

SAUL is subject to triennial valuations by professionally qualified and independent actuaries. The last available valuation was carried out as at 31 March 2008 using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The following assumptions were used to assess the past service funding position and future service liabilities:

Valuation method:	Projected unit	
	Past Service	Future Service
Investment return on liabilities:		
- before retirement	6.90% p.a.	7.00% p.a.
- after retirement	4.80% p.a.	5.00% p.a.
Salary growth*	4.85% p.a.	4.85% p.a.
Pension increases	3.35% p.a.	3.35% p.a.

* excluding an allowance for promotional 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 £1,266 million representing 100% of the liability for benefits after allowing for expected future increases in salaries.

Notes to the Accounts

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.

A comparison of SAUL's assets and liabilities calculated using assumptions consistent with FRS17 revealed SAUL to be in surplus at the last formal valuation date (31 March 2008).

The formal triennial actuarial valuation as at 31 March 2011 will incorporate allowance for scheme benefit changes and any changes the trustee makes to the underlying actuarial assumptions.

(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 2011, the School had 54 active members participating in the Scheme.

(d) The total pension costs for all three schemes, which were charged to the income & expenditure account, was £6,034,000 (2010: £5,642,000).

32 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.

Transactions totalling £68,948, mainly relating to legal advice on property matters, took place during the year with Eversheds LLP, in which a member of Council was a partner until 30 April 2011.

Five members of Council were paid a total of £2K in travel and subsistence expenses for the year ended 31 July 2011. No payments were made to members of Council for serving as trustees and there were no waivers of such payments.

33 Access to Learning Fund

	2011	2010
	£000	£000
Grant allocation received	9	9
Grants disbursed to students	(8)	(9)
Balance to be refunded to HEFCE	<u>1</u>	<u>-</u>

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

Notes to the Accounts

34 Financial Commitments

At 31 July 2011 the School was committed to making the following payments during the next year in respect of operating leases:

	2011	2010
	£000	£000
Land and Buildings: Expiring within one year	<u>-</u>	<u>348</u>

35 Capital Commitments

	2011	2010
	£000	£000
Commitments contracted for at 31 July	<u>-</u>	<u>250</u>

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