

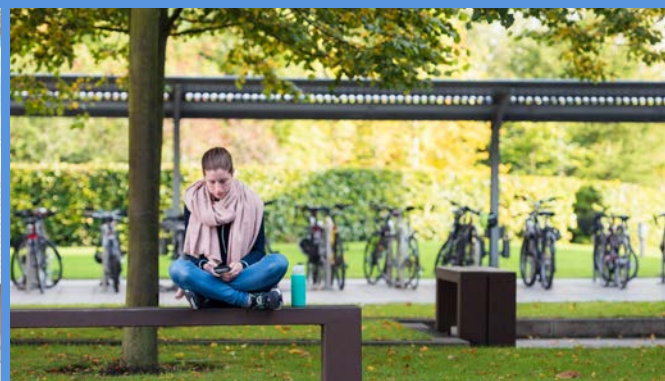


Queen Margaret University  
EDINBURGH

# Strategic Report and Financial Statements

FOR THE YEAR ENDED 31st July 2017

Registered No. SC007335  
Scottish Charity No. SC002750



## CONTENTS

	<i>PAGE</i>
Principal's report	3
Strategic report	4 – 7
Directors' report	8 – 10
Corporate governance statement	11 – 14
Responsibilities of the University Court	15
Independent auditor's report	16 – 17
Statement of principal accounting policies	18 – 21
Statements of comprehensive income and expenditure	22
Statements of changes in reserves	23
Balance sheets as at 31 July 2017	24
Consolidated statement of cash flows	25
Notes to the financial statements	26 – 39

## PRINCIPAL'S REPORT for the year ended 31 July 2017



2017 marks the tenth anniversary of our relocation to our campus in East Lothian, and also of our achievement of full university title. The last decade has seen a continued positive trajectory at QMU. Our student numbers have grown and we now have a rich international community with representation from over 90 countries. As well as expanding our international partnerships, we are deeply engaged locally and are seen as a real community asset in East Lothian. We have leapt up the national research rankings and have greatly expanded the range and depth of such work. We are well on our way towards fulfilling our vision of being recognised as a university of ideas and influence.

The 2016/17 financial year has seen further positive developments that bring us closer to achieving the objectives of our 'QMU 150' strategic plan. For example, at 92.8%, we now have the highest graduate employment rate of any Scottish university and the third highest employability rate among all UK higher education institutions. Behind this lies our focus on producing creative thinking, problem solving, confident and self-reliant graduates: we prepare students for a career, not just their first job. Also this year, we installed our new Chancellor, Prue Leith CBE. Taking over from our founding Chancellor, Sir Tom Farmer, who served QMU so well, our new Chancellor has already proven herself to be a great ambassador for the University.

We continue to focus our work on our flagship areas of health and rehabilitation, creativity and culture, and sustainable business. In research, this is achieved through our nine research and knowledge exchange centres, which have a steadily growing impact and profile. One of them, our Institute for Global Health and Development, has been awarded a £3.5m grant to promote health services in fragile settings. This, the largest single research grant that QMU has ever received, is focused on strengthening mental health care and treatment of diabetes and heart disease in countries with weak health systems. Other significant research and knowledge exchange projects across the University are tackling issues and providing solutions in speech science and speech therapy, food innovation, consumer dispute resolution, memory, and person-centred care.

The tenth anniversary of our relocation encourages us to reflect on the positive relationship that we enjoy with East Lothian Council, and with our local communities more broadly. Working in partnership with the Council, we have put forward proposals for developing land around the campus to support economic development, and to add to the vibrancy of the campus and the local community. These proposals, centred on an innovation park based on activity in food and drink, and an associated commercial hub, have the potential to transform the economic landscape in East Lothian. We passed a significant milestone in this project this year with the UK and Scottish governments' announcement of £600m 'City Deal' investment in Edinburgh and Lothians, part of which has been earmarked to support our proposed innovation park development.

Alongside this, partnerships with organisations in the Lothians go from strength to strength.

An example is the memorandum of agreement that we signed in March with Leuchie House, a respite care facility based in East Lothian. As well as benefitting both organisations, this partnership will help Scotland achieve its vision for an integrated health and social care workforce. The partnership joins similar agreements that we have with organisations such as Cyrenians and Alzheimer Scotland

Committed to de-mystifying higher education and widening access to it, we are playing a full role in the higher education sector's response to the recommendations of the Scottish Government's Commission on Widening Access. Our approach to widening access is distinctive in that we work with younger children as well as senior school pupils. Over 4,000 children have participated in our Children's University, which is aimed at 5-14 year olds. Our acclaimed Academies project is continuing to deliver educational and work experience opportunities for senior school pupils across South East Scotland, despite reductions in external funding.

As an outward looking, internationally focused institution, we have been active in initiatives to show that 'Scotland welcomes the world' following the Brexit vote. We have been celebrating the crucial contribution that our European and international students and staff make to our cultural richness and academic outputs.

We have made new academic appointments that have introduced different perspectives and ideas, and which are helping to facilitate delivery of the ideas of existing staff. These appointments include a new Dean in Arts, Social Sciences and Management and a number of new heads of academic divisions. Our ongoing course portfolio review will allow us to ensure that the programmes we offer are in line with the changing environment in which we operate. Beyond this, our developing online strategy and further expansion of our transnational education programmes will enable us to ensure that our operations remain sustainable.

There is no denying that this last year has been a difficult one for the higher education sector, including QMU. Uncertainty following Brexit, along with financial and economic challenges more generally, is reflected in our financial out-turn for the year. The next financial year will be no easier than the last one, and the challenges we face around future sustainability are set out clearly in the strategic report, but the strategies that we have in place are designed to allow us to respond effectively to our operating environment. As an institution with the confidence and vision to relocate ten years ago, we have always adapted to the changing world with agility, imagination and confidence. This university of ideas and influence is ready to face the challenges and opportunities of the next year, decade and beyond.

Professor Petra Wend PhD FRSE  
Principal and Vice-Chancellor

## STRATEGIC REPORT

### Status

Queen Margaret University, Edinburgh is an autonomous Scottish higher education institution and is registered under the Companies Acts as a company limited by guarantee. Its registered office is Queen Margaret University Drive, Musselburgh, East Lothian, EH21 6UU. The University has been entered into the Scottish Charity Register and is entitled, in accordance with section 13(1) of the Charities and Trustee Investment (Scotland) Act 2005, to refer to itself as a Charity registered in Scotland.

### Scope of the financial statements

The financial statements presented on pages 18 to 39 comprise the consolidated results of the University and its subsidiary company, QMU Enterprises Limited. QMU Enterprises Limited undertakes commercial consultancy work, utilising the expertise of the University's academic and technical staff, and also deals with vacation letting of the University's student accommodation.

The financial statements have been prepared on a going concern basis in accordance with Financial Reporting Standard 102 (FRS 102) and the Statement of Recommended Practice – Accounting for Further and Higher Education 2015 (SORP 2015), with the Accounts Direction issued by the Scottish Funding Council (SFC) and with the United Kingdom Companies Acts.

### Development of strategic plan

In December 2015 the University Court approved the new strategic plan, which had been developed in accordance with the QM150 strategy, details of which are accessible on the University's website. The QM150 strategy is based around the University's vision to be a University of ideas and influence. The strategy sets out the mission for the development of the University over a ten year period, culminating in the 150th anniversary of the founding of the institution in 2025. The strategic plan sets out nine overarching goals which the University wishes to achieve in order to allow the delivery of the strategy by 2025. A key element of the plan is the inclusion of key performance indicators which the University Court uses to monitor progress towards the achievement of the goals set out in the plan (both financial and non-financial). The plan also sets out the processes employed to manage the risks which might inhibit this achievement.

### Results for the year

The Group's consolidated results for the year to 31 July 2017 are summarised as follows:-

	2016/17	2015/16
	£million	£million
Total income	39.1	36.6
Total expenditure	(39.9)	(38.4)
<b>(Deficit) / surplus for the year</b>	<b>(0.8)</b>	<b>(1.8)</b>
Actuarial (loss) /gain in respect of pension schemes	3.0	(1.5)
<b>Total comprehensive income for the year</b>	<b>2.2</b>	<b>(3.3)</b>

The main changes in the underlying outturn position compared to 2015/16 were:-

- An increase of £0.1 million in income from tuition fees and education contracts and an increase of £0.4 million in grant income from the Scottish Funding Council;
- An increase of £2.2 million in other operating income, of which £1.8 million relates to a non-recurrent receipt in respect of an outstanding claim;
- An increase of £1.5 million in staff costs, including increases of £0.9 million in salary costs, £0.3 million in National Insurance costs (including the Apprenticeship Levy) and £0.3 million in pension costs;
- A reduction of £0.3 million in other operating expenses;
- An increase in interest payable of £0.1 million reflecting move to a fixed-rate during the year.

QMU Enterprises Ltd generated a profit of £181,000 (2015/16: £229,000), which was passed to the University under deed of covenant.

## STRATEGIC REPORT (continued)

### Cash flows and liquidity

The result for the year, adjusted for the effect of non-cash items and interest, resulted in a net cash inflow of £4.5 million on operating activities (2015/16, £3.3 million inflow). Overall cash balances increased by £0.4 million (2015/16; reduction of £1.2 million). Cash balances at 31 July 2017 of £8.4 million (2016: £7.9 million) represented 85 days' expenditure (2016: 87 days).

### Key performance indicators

In accordance with the recommendations from the Higher Education Financial Sustainability Strategy Group (FSSG), the University Court undertakes a formal annual assessment of the University's financial sustainability. This process involves reviewing a common set of financial indicators, which have been applied to the University's historical results and to the financial forecasts measured over a rolling five-year period, so as to reduce the impact of any one-off exceptional items arising in any year. The two key indicators which the University Court has agreed to focus upon to inform its considerations around financial sustainability are:-

1. Earnings before interest, taxation, depreciation and amortisation (EBITDA); and
2. Net cash flow from operating activities less interest payable as a percentage of turnover.

The second indicator has been adapted from the basket of financial indicators recommended by the FSSG as it is a more appropriate measure for the University, given its relatively high level of borrowings as a proportion of its turnover. The targets are also set at a level which will allow compliance with banking covenants. The results of the annual review undertaken in December 2017, based on a rolling five-year period, were as follows:-

Indicator	Target	Average
EBITDA	12%	10.8%
Net cash flow from operating activities less interest payable as a percentage of turnover	6%	6.4%

### Management of principal risks and uncertainties

In common with other universities, Queen Margaret University has to manage its activities whilst facing significant pressures on its funding as well as on its cost base. Significant risks facing the University include:-

- Funding from government through the Scottish Funding Council (SFC), the University's main source of income, is likely to suffer from further real-terms reductions over the next few years as a consequence of spending cuts throughout the public sector.
- Recruitment of international students continues to be challenging as a result of difficulties faced by international students in obtaining visas to study in the UK.
- Underlying assumptions contained in the future financial forecasts include an assumption that income from tuition fees and education contracts will increase significantly over the next four years. A review of the University's academic portfolio has taken place during 2017, which provides an indication that there is scope for the University to increase its income in this area, and progress will continue to be monitored carefully, with possible mitigating actions being planned for in the event that the increase in income is not achieved.
- Pressure on staff costs continues to build, both in terms of pay awards (where the University continues to participate in the UK-wide national negotiating framework) and also in terms of the cost of employers' National Insurance contributions and the costs of pension provision.
- The full implications of the decision for the UK to leave the European Union are still unclear. However, it is likely that this will have an adverse impact on engagement with both students and staff from EU member states, and will introduce additional hurdles in accessing EU funding for research and other activities.

The Court has also made an assessment of a particular risk around the financial sustainability of the University, in light of an anticipated breach of a bank loan covenant over the next two years. University management is engaged in discussions with the lender, Barclays Bank plc, with a view to agreeing a waiver of the banking covenant. At the date of approval of the financial statements these discussions are continuing. In concluding that the accounts should be prepared on a going concern basis, the Court has taken the view that these discussions will result in an agreement being reached with Barclays Bank plc which will allow the University to continue its operations.

The identification and management of risks is firmly embedded within the University's structure and processes. The institutional corporate risk register, which includes a description of actions undertaken to mitigate risks, is formally reviewed by the Executive Board and the Audit & Risk Committee as well as being discussed by the University Court. The Court also undertakes, from time to time, an exercise to agree its appetite for risk, and to ensure that residual risks, after the application of mitigating actions, sit within the agreed tolerance.

## STRATEGIC REPORT (continued)

### **Borrowings**

Borrowings at 31 July 2017 amounted to £33.6 million, (31 July 2016, £35.1 million) relating entirely to a secured loan facility with Barclays Bank plc taken out to fund the campus development at Musselburgh.

### **Pension arrangements**

The University is involved in three pension schemes, as follows:-

The Lothian Pension Fund, which is part of the Local Government Pension Scheme (LGPS), is a multi-employer defined benefit scheme. The scheme had a deficit at 31 July 2017. The Fund trustees have, in recent years, applied increases to the level of employers' and employees' contributions to the scheme in order to recover this deficit position. The University's share of the fund deficit, as calculated by the scheme actuary, has been shown as a liability at 31 July 2017.

The most recent actuarial review of the Scottish Teachers' Superannuation Scheme (STSS) was undertaken as at 31 March 2012. As a result of this review, the level of employers' contribution to this scheme was set at 17.2% with effect from 1 September 2015. As the scheme is unfunded, there can be no surplus or shortfall. Pension contribution rates are set by the scheme actuary to meet the cost of pensions as they accrue.

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 trustee administered fund. 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 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 University has a liability in respect of its commitment to the USS deficit recovery plan, shown in note 17. The revised plan, along with the changes to scheme benefits, are expected to eliminate the deficit by 2031.

### **Social inclusion**

Queen Margaret University aims to promote entry to, and provide education at, undergraduate and postgraduate level to a diverse range of students, whatever their background. In assessing candidates for admission to the University, we are committed to the principles of fairness, transparency, and widening participation. We offer a range of recruitment, outreach, pre and post entry activities to raise aspiration, encourage access and maximise retention from under-represented groups in line with our Student Experience strategy, and underpinned by the University's Outcome Agreement with the Scottish Funding Council.

### **Student satisfaction**

The University has participated in the National Student Survey (NSS) since 2010. The 2017 institutional results, while not directly comparable to previous years, saw a disappointing reduction in levels of satisfaction which reversed a sustained and steady increase since first participation. There were strong results for a number of subject areas. Publicity Studies (PR & Media and PR, Marketing & Events), is ranked top in the UK and top in Scotland; Marketing (PR, Marketing & Events) is joint top in the UK and top in Scotland; Nursing is joint top in both the UK and Scotland; and Sociology (Public Sociology and Psychology & Sociology) is also top in Scotland. A detailed action plan has been developed in response to the overall survey results, and regular progress reports are being provided to senior committees of the University.

### **Graduate employment**

Our refreshed Employability Strategy brings together in a single document our approach to employability, with the primary objective of providing equitable employment and careers education to all student and graduates and providing a public statement of our commitment to the success of our students. We consider that our efforts are being rewarded. Our HESA performance indicator for employability (published in July 2017, and based on 2015-16 data) is 98.2%. This places us top in Scotland for graduate employment and third in the UK.

## STRATEGIC REPORT (continued)

### Student involvement

The University seeks to take account of the views of the student body. The Student President and one other student representative are full members of the University Court and the Senate, and there is student representation on all other major committees of the University. A member of Court sits on the Students' Union Board of Trustees, and senior members of staff, including the Principal, engage with the Students' Union from time to time to explain aspects of the University's operations and plans and to answer questions from student representatives. The Deputy Principal, University Secretary and the SU Sabbatical Officers meet regularly as the Student Union Partnership Board to discuss issues of common concern and interest, and a Student Partnership Agreement has been put in place between the University and the Students' Union. The University also provides an annual grant to the Students' Union.

### Environmental issues

The University has one of the "greenest" campuses in the UK, which received a BREEAM "excellent" rating. Sustainability remains at the heart of the University's activities, which has been recognised through a number of green awards.

### Future developments

In order to address the risks set out above, and also to take advantage of further opportunities as they arise, the University is continuing to focus on ensuring that its academic, infrastructure, human resources and financial strategies are closely aligned. A review of the academic portfolio has been undertaken, the results of which will be used to ensure that the University is able to achieve the objectives set out in the QM150 strategic plan, which will allow the University to continue to generate an adequate level of cash in the short- to medium term and to maintain an adequate level of reserves. The Court carries out regular monitoring of the University's financial sustainability, as described above.

The likely impact of the UK's exit from the European Union on the University's operations and financial plans remains uncertain. The University has identified a number of elements which it will require to monitor as the Brexit negotiations continue. These include:-

- the impact on tuition fees from EU students (and any consequential impact on EU student numbers choosing to study at Queen Margaret University);
- the ability to access research and other funding from EU institutions;
- the status of staff from within the remaining EU (and the University's ability to attract and retain such individuals); and
- the attractiveness of the University as a partner institution for collaborative work with Universities based in the remaining EU.

The funding environment for Scottish higher education institutions remains challenging, as the level of funds available to the Scottish Government and the Scottish Funding Council continues to decline in real terms. The financial challenges facing the University are highlighted in the financial sustainability indicators set out above, and in particular the EBITDA indicator, for which the five-year average is below the target level. The next two years will be a particular challenge, as the University moves towards a revised model of delivery, informed by the outcomes from the recent portfolio review. The long term financial health of the University will continue to depend upon its ability to grow and diversify its income base, and to control costs. Work therefore continues on developing further new and increased sources of income with a view to ensuring that the University can achieve its objective of long-term sustainability.

### On behalf of the University Court

Dr Frances Dow, CBE  
Chair  
6 December 2017

## DIRECTORS' REPORT

### **Directors' and officers' liability insurance**

During the year the University maintained a Directors' and Officers' liability insurance policy to provide cover against any civil liability attaching to Court Members or Officers of the University in connection with their University activities.

### **Members' liability**

The liability of each member of the University upon winding up of the Company is limited to 50p. Distributions to members are not permitted by the Articles of Association of the Company.

### **Employee involvement**

The University recognises the benefits of keeping employees informed of its financial and academic performance. Information on matters of interest to employees is given through a staff newsletter, through staff briefing sessions and through regular communication from the Principal. The University operates a performance enhancement review scheme which is open to all staff.

### **Employment of disabled persons**

The University's policy remains to afford equal opportunity to all, including disabled people whether registered or not, to apply for employment and, during employment, to receive the support and development they require to enable them to make a full contribution to the University.

### **Creditors' payment policy**

Unless special terms are agreed, it is the University's policy to pay invoices 30 days from the date of the invoice (in accordance with the CBI prompt payment code). In agreements negotiated with suppliers, the University endeavours to include and abide by specific payment terms. At 31 July 2017, trade creditors represented 35 days of relevant expenditure (2016: 33 days). Interest paid under the Late Payment of Commercial Debts (Interest) Act 1998 was £nil (2015/16: £nil).

### **Going Concern**

The University's activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report, which also includes information on cash flows and borrowing facilities. Demand from students for the University's courses remains strong. Consequently, the University Court believes that the University is well placed to manage its business risks successfully despite the ongoing, uncertain economic outlook. As noted above in the strategic report in the section on Management of principal risks and uncertainties, the Court has assessed a particular risk around ongoing discussions to agree a waiver of a bank loan covenant, and has taken the view that these discussions will result in an agreement being reached which will allow the University to continue its operations.

In accordance with the recommendations from the Higher Education Financial Sustainability Strategy Group (FSSG), the University Court undertakes a formal annual assessment of the University's financial sustainability. The University Court has also undertaken an assessment of going concern and liquidity risk, taking into account the principles and recommendations set out in the Sharman report into going concern and liquidity risks. As a result of this exercise, the University Court has a reasonable expectation that the University has adequate resources to enable it to continue in operational existence for the foreseeable future, and that it is appropriate to adopt the going concern basis of accounting in preparing the annual financial statements.



## DIRECTORS' REPORT (continued)

### Membership Of The University Court

Name		Attendance record	
Dr Frances Dow CBE (Chair)	Appointed 17 March 2016	5/5	Former Vice Principal, University of Edinburgh
The Honourable Mark Laing (Vice-Chair)	Appointed 1 October 2009 Retired 30 September 2016	0/0	Chairman, Nairn's Oatcakes Limited
Linda McPherson (Vice-Chair)	Appointed 1 October 2014	4/5	Former Senior Director - Food and Drink, Tourism & Textile, Scottish Enterprise
Elaine Acaster	Appointed 28 June 2017	1/1	Former Vice Principal, Royal Veterinary College, University of London
David Banks	Appointed 1 December 2016	4/4	Elected member, Appointed by Senate
Carolyn Bell	Appointed 1 October 2016	5/5	Solicitor
James Bradshaw	Appointed 1 May 2010	4/5	Former Deputy Vice-Chancellor (Resources & Business Development), University of Sunderland
Dr Richard Butt	Appointed 1 September 2016	5/5	Deputy Principal <i>Ex Officio</i>
Professor Graham Caie CBE	Appointed 1 December 2014	4/5	Former Chair, National Library of Scotland Governance Committee, Vice President of the Royal Society of Edinburgh
Ian Calder	Appointed 1 March 2011 Retired 28 February 2017	3/3	Former Director, Grant Thornton LLP
Craig Cathcart	Appointed 8 February 2011 Retired 12 October 2016	0/1	Staff Member, Appointed by Senate
Colin Duffus	Appointed 1 June 2016	4/5	Elected Professional Services Staff Member
Professor Robert Cormack, FRSE	Appointed 1 September 2010 Retired 31 August 2016	0/0	Former Principal, UHI Millennium Institute
Dr Anthony Falconer, OBE	Appointed 1 October 2013	5/5	Retired Consultant Obstetrician and Gynaecologist. Former President Royal College of Obstetricians and Gynaecologists.
Professor Alan Gilloran	Appointed 1 January 2010 Retired 31 August 2016	0/0	Deputy Principal <i>Ex Officio</i>
Dr Anna Gregor, CBE	Appointed 1 November 2010 Retired 31 October 2016	1/1	Retired Associate Medical Director, NHS Lothian
Cynthia Guthrie	Appointed 1 December 2015	5/5	Joint Managing Director, Guthrie Group Limited
Dr Lindsay Irvine	Appointed 1 December 2013 Retired 30 November 2016	1/1	Elected Academic Staff member
Francis Lennon, OBE	Appointed 1 October 2016	5/5	Former Head Teacher
Jacqueline Macdonald	Appointed 1 October 2013	5/5	Partner, Small Green Spaces
Ken McGarrity	Appointed 1 October 2016	4/5	Former Finance Director, Nairn's Oatcakes
Miller McLean	Appointed 1 January 2011	2/5	Chairman, Adam & Co Group plc, Retired Group Secretary, Royal Bank of Scotland
Margaret O'Connor	Appointed 1 October 2014	3/5	Chief Executive, Art in Healthcare
Sarah Phillips	Appointed 28 June 2017	1/1	Solicitor
Robert Rae	Appointed 1 March 2011 Retired 28 February 2017	2/3	Former Chairman, Midlothian & East Lothian Chamber of Commerce
Megan Richardson	Appointed 10 June 2016	5/5	Student Vice-President
Stewart Sands	Appointed 10 June 2017	1/1	Student President
Eurig Scandrett	Appointed 1 December 2016	4/4	Elected Academic Staff member
Andrew Scott	Appointed 28 June 2017	1/1	Director of Population Health, Scottish Government
Judith Sischy, OBE	Appointed 1 September 2010 Retired 31 August 2016	0/0	Former Chief Executive, Scottish Council of Independent Schools
Heidi Vistisen	Appointed 10 June 2015 Retired 9 June 2017	4/4	Student President
Laura Young MBE	Appointed 1 October 2016	5/5	Founder of the Teapot Trust
Professor Petra Wend	Appointed 1 September 2009	5/5	Principal & Vice-Chancellor <i>Ex Officio</i>

## DIRECTORS' REPORT (continued)

### Membership of University Court Committees during the year to 31 July 2017

#### Audit and Risk Committee

Name		Attendance record
Miller McLean	Convener	4/4
Carolyn Bell	Appointed 8 February 2017	1/1
Dr Anthony Falconer		3/4
Robert Rae	Retired 28 February 2017	3/3
Judith Sischy	Retired 31 August 2016	0/0

#### Finance & Estates Committee

Name		Attendance record
James Bradshaw	Convener	4/5
Dr Richard Butt	Appointed 1 September 2016	4/5
Ian Calder	Retired 28 February 2017	2/2
Professor Alan Gilloran	Retired 31 August 2016	0/0
Cynthia Guthrie		4/5
Ken McGarrity	Appointed 8 February 2017	2/3
Linda McPherson		5/5
Professor Petra Wend		3/5

#### Nominations Committee

Name		Attendance record
Dr Frances Dow	Convener	2/2
Professor Robert Cormack	Retired 31 August 2016	0/0
Colin Duffus		2/2
Dr Anthony Falconer		1/2
Mark Laing	Retired 30 September 2016	0/0
Jacqueline Macdonald		2/2
Linda McPherson		2/2
Heidi Vistisen	Retired 9 June 2017	1/1
Professor Petra Wend		2/2
Stewart Sands	Appointed 10 June 2017	1/1

#### Senior Management Remuneration Committee

Name		Attendance record
Linda McPherson	Convener – Appointed 1 October 2016	0/0
Mark Laing	Convener - Retired 30 September 2016	1/1
James Bradshaw		1/1
Dr Frances Dow		1/1
Jacqueline Macdonald		1/1

#### Disclosure of information to auditors

The members of the University Court who held office at the date of approval of these financial statements confirm that, so far as they are each aware, there is no relevant audit information of which the University's auditors are unaware; and each member of the University Court has taken all the steps that he/she ought reasonably to have taken as a Member of Court to make himself/herself aware of any relevant audit information and to establish that the University's auditors are aware of that information.

#### On behalf of the University Court

Dr Frances Dow, CBE  
Chair  
6 December 2017

## CORPORATE GOVERNANCE STATEMENT

### Summary of the University's Structure of Corporate Governance

The University is committed to best practice in all aspects of corporate governance. This summary describes the manner in which the University has applied the principles set out in the UK Corporate Governance Code, in so far as they apply to the higher education sector. The University has followed the internal control guidance for directors on the Code as amended by the British Universities Finance Directors Group, and has also aligned its practice fully against the principles set out in the Scottish Code of Good Higher Education Governance published in July 2013. The purpose of this summary is to assist the reader of the financial statements to understand how the principles of good governance set out in both codes have been applied.

The University is not required to comply with the UK Corporate Governance Code. However, it has reported on its Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code that it considers to be relevant to the company and best practice, and it has done so throughout the year ended 31 July 2017. The University Court also considers that the University is compliant with the main principles of the Scottish Code of Good Higher Education Guidance and observes its supporting guidelines.

The University Court has adopted a Statement of Primary Responsibilities which includes provisions relating to:

- approving the mission and strategic vision of the Institution, long-term business plans, key performance indicators (KPIs) and annual budgets, and ensuring that these have due regard to the interests of stakeholders;
- appointing the Head of the Institution (the Principal) as chief executive officer of the Institution and putting in place suitable arrangements for monitoring his/her performance. Both the appointment and the monitoring of performance of the Principal shall include consultation with all members of the University Court;
- ensuring the quality of Institutional educational provision;
- ensuring adherence to the funding requirements specified by the Scottish Funding Council in its Financial Memorandum and other funding documents;
- ensuring the establishment and monitoring of systems of control and accountability, including financial and operational controls and risk assessment, clear procedures for handling internal grievances and "whistleblowing" complaints, and for managing conflicts of interest; and
- monitoring institutional performance against plans and approved KPIs which, where possible and appropriate, should be benchmarked against other comparable institutions.

The full Statement of Primary Responsibilities can be found as part of the Court Members' Handbook on the University website: <http://archive.qmu.ac.uk/court/docs/court%20members%20handbook.pdf>

The University Court is responsible for the University's system of internal control, and for reviewing its effectiveness. This system relies on management informing the University Court of any potential internal control issues and proposing to the University Court any necessary remedial action. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material mis-statement or loss.

The University Court is satisfied that there is an ongoing process for identifying, evaluating and managing the University's significant risks, which has been in place throughout the year ended 31 July 2017 and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the University Court, and accords with the Turnbull guidance, as applicable to the higher education sector. The University has in place a business continuity and risk management and policy framework for the whole organisation. In addition, each of the key areas within the institution, including the Executive Board, has in place local procedures detailing action to be taken in response to a potential or actual disaster. Risk management is a standing item on the agenda of the Executive Board and the Audit and Risk Committee, and regular reports are made to the University Court.

The University Court comprises lay and other categories of persons appointed under the University's Statutory Instrument. The majority are non-executive, and the roles of Chair and Vice-Chair of the University Court are separated from the role of the University's chief executive, the Principal and Vice-Chancellor. Under the Statutory Instrument, the University Court delegates to the Principal and Vice-Chancellor the organisation, management and discipline of the University. In discharging these functions, the Principal and Vice-Chancellor is subject to the general control and direction of, and is accountable to, the University Court but otherwise has all powers and duties of the University Court in relation to these functions. The University maintains a register of interests of members of the University Court and senior officers, which is published on the University website.

## CORPORATE GOVERNANCE STATEMENT (continued)

To assist members in the performance of their duties, members of the University Court were offered, and attended, several training and development opportunities during 2016-17. These included external training sessions, discrete development and planning away days, as well as presentations on strategic themes relevant to the work of the University at each Court meeting. Training and development opportunities offered to Court members in 2016/17 included:

- Being an Effective Governor (Leadership Foundation for Higher Education, October 2016)
- Being an Effective Student Governor (Leadership Foundation for Higher Education, September 2016)
- Governor Development: Scotland (Leadership Foundation for Higher Education, February 2017)
- Court Away Days (8 and 9 February 2017)
- Overcoming Unconscious Bias Training (External Provider April 2017).
- Awareness of Prevent Training (WRAP Contest delivered April 2017).

New members also received a formal induction session supported by the Court Members' Handbook (published October 2014 and revised version published October 2016).

Under the Financial Memorandum with the Scottish Funding Council (SFC), the University Court is responsible for setting the strategic direction of the University, approval of overall institutional budgets and major developments and the receipt of regular reports from executive officers on the day to day operations of its business and its subsidiary companies. The University Court has five scheduled meetings per annum, and has delegated authority to a number of Committees, as set out below. Each of the Committees of the University Court is formally constituted with published terms of reference, and with membership comprised mainly of lay members of the University Court, one of whom is the Convener.

The Audit and Risk Committee meets at least three times annually to discuss audit, risk and control issues, with the University's external and internal auditors in attendance as appropriate. The Committee considers detailed internal audit reports and recommendations for the improvement of the University's systems of internal control, together with management responses and implementation plans. It also receives and considers reports from the Scottish Funding Council where such reports impact on the University's business, and monitors adherence to the regulatory requirements. It reviews the University's annual financial statements. Senior executives attend the Audit and Risk Committee as necessary, but are not members of the Committee. The Committee meets at least annually with the external auditors for independent discussion in the absence of executive officers. The identification, assessment and management of risk is a standing item considered at each meeting of the Committee, and these matters are reported thereafter to the University Court.

The Finance & Estates Committee reviews and recommends to the University Court the University's financial strategy, as well as the annual revenue and capital budgets. It monitors performance in relation to approved budgets and borrowings through the use of key performance indicators, and through a review of quarterly and annual financial reports. The Committee also considers matters relating to the development of the University's estate.

The Nominations Committee makes recommendations to the University Court on appointments to vacancies in the University Court lay membership, on the appointment of the Chair, on the re-appointment of existing members where appropriate, on appointments to University Court committees and on the appointment of the Chancellor.

The Senior Management Remuneration Committee develops, on behalf of the University Court, senior management remuneration policies and processes for final determination by the University Court. The Committee determines and reviews the salaries and terms and conditions of the Principal and members of the Executive Board in line with agreed policies, and in accordance with good corporate and higher education governance. The Committee also reviews arrangements in place for determining the salaries of those senior staff with Professorial title.

The Executive Board comprises the Principal, the Deputy Principal and five other senior managers. It receives reports on key performance and risk indicators, and possible control issues are brought to its attention. The Executive Board and the Audit and Risk Committee also receive regular reports from the internal auditors. The Audit and Risk Committee's role in this area is confined to a high level review of the arrangements for internal financial control. The University Court receives reports as appropriate on risk and control issues from management and the Audit and Risk Committee.

## CORPORATE GOVERNANCE STATEMENT (continued)

### Higher Education Governance (Scotland) Act 2016

The Higher Education Governance (Scotland) Act 2016 (Commencement, Transitory, Transitional and Savings Provisions) Regulations 2016 were laid in Parliament on 24 November 2016, and came into force on 30 December 2016.

The University Court has been engaged in detailed work on the University's compliance with the Act since the publication of the original Higher Education (Scotland) Governance Bill, with each provision of the Act being addressed in stages. The University is currently in compliance with key sections of the Act, including the requirements set out for the appointment of the senior lay member, which were addressed by the University when it secured parliamentary approval in 2015 for amendments to its Order of Council.

The majority of the Act's remaining requirements concerning the composition of the governing body are accommodated currently within the University's Order of Council, with the exception of the additional category of membership of '2 persons by nomination of a Trades Union'. The maximum membership of the University Court will be amended to 25 to accommodate Court's approval that a Senate appointee be retained in membership of the University Court.

The requirements for membership of the academic board of a higher education institution have been met fully, and are in the process of being included in the Senate Standing Orders. The Order of Council does not set out in detail the composition of the Senate, but rather states simply that the Court 'shall establish a Senate which shall be constituted and regulated in a manner specified by the Court from time to time on the recommendation of the Principal'. Consequently, there is no requirement to amend the Order of Council to bring it in line with the legislation.

Revisions to the University's Statutory Instrument will be completed during 2017-18.

### Review of Effectiveness

The University Court has established as a Key Performance Indicator of the effectiveness of its performance, and of its Committees, 'full alignment with the Scottish Code of Good Higher Education Governance'. The University continues to be in full compliance with the Scottish Code of Good Higher Education Governance, but will review that status, and the continued effectiveness of its Governance arrangements, in light of the provisions set out in the revised Scottish Code published in October 2017.

During 2016-17, the University Court received regular updates on actions arising from the externally facilitated review of its effectiveness conducted in 2015, the report of which was discussed in full at the Court Away Days in February 2016. All actions were completed within the agreed timescale ie by June 2017. The final review report and action plan is available on the University website at: <http://archive.qmu.ac.uk/court/docs/court%20effectiveness%20action%20plan.pdf>

The revised Scottish Code of Good Higher Education Governance was published in October 2017. The University Court will benchmark and align its practice with the updated requirements of that Code during 2017-18.

Throughout 2016/17, the University Court reviewed a full suite of Key Performance Indicators (KPIs) that it has established as part of its wider assessment of its effectiveness. Following the year end, the University Court undertook a review of two KPIs relating to earnings before interest, taxation, depreciation and amortisation (EBITDA) and to net cash flow from operating activities less interest payable as a proportion of turnover, and also a basket of six indicators of financial health as recommended by the UK-wide Financial Sustainability Strategy Group (FSSG). In accordance with the FSSG methodology, these KPIs are measured over a rolling five-year period. As a result of this review, and also a review of six non-financial KPIs, the University Court was able to assure itself that the University's academic and other strategies take account of the environment in which it expects to be operating, and are taking the University in a direction where it and its core publicly-funded activities should be financially sustainable.

### Equality and Diversity

While responsibility for mainstreaming equality and diversity within the University rests with all staff and students, the University Court is, as a matter of law, responsible for ensuring compliance with the Equality Act 2010 and for ensuring that the University meets its public sector equality duty (PSED) and the specific duties relevant to Scotland. The University Court exercises such oversight through the Equality and Diversity Committee (EDC), which is responsible to the University Court for the development of the strategic framework for equality in service provision and in employment across the University. Embedding equality and diversity in our governance structures and in our strategic planning process is critical to mainstreaming equality and diversity, as is defining responsibilities, setting performance measures and monitoring progress against those measures. The University's Mainstreaming Report and Equality Outcomes, which sets out progress on mainstreaming equality and establishes a number of outcomes for the period 2017-2021, was approved by the Court in April 2017. The report can be found at: <https://www.qmu.ac.uk/about-the-university/equality-and-diversity/>

## CORPORATE GOVERNANCE STATEMENT (continued)

### Equality and Diversity (continued)

The University's Gender Action Plan, submitted to the SFC in July 2017, re-states the University's commitment to ensuring that the University Court (Court), Senate and all committees and decision making bodies of the University are representative of its community. In particular, the University is committed to achieving the following goals and targets:

- Achieving practical gender balance amongst lay members of Court. Practical gender balance will be achieved where the lay membership of Court constitutes not less than 40% of either gender.
- Undertaking an annual review of the equality and diversity characteristics of the Court or as a specific need for review is identified.
- In undertaking any recruitment activity concerning the appointment of lay members of Court, the Court will have regard to equality and diversity characteristics of the Court and will take positive actions to increase the likelihood of applications being submitted from applicants that would enhance the representative character of the Court.

At the time of writing, the gender balance of membership of Court sits at 50% female and 50% male. Equality Monitoring has been introduced for new Court membership, with information collected at the point of appointment. This will be extended to all Court members during 2017/18.

### System of Internal Financial Control

The key elements of the Group's system of internal financial control include the following:

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic divisions and support units;
- a comprehensive medium and short-term planning process, supplemented by detailed monthly income and expenditure reports, and annual capital budgets;
- monthly review of financial results involving variance and KPI reporting and updates of forecast out-turns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving significant capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels;
- comprehensive financial regulations, detailing financial controls and procedures;
- an independent professional internal audit team whose annual programme is approved by the Audit & Risk Committee.

The Audit and Risk Committee, on behalf of the University Court, has reviewed the effectiveness of the Group's system of internal financial control as part of a rolling programme. The Committee has formed the opinion that the University's systems provide a reasonable basis for maintaining control and ensuring the achievement of economy, efficiency and effectiveness. In reaching its opinion, the Committee has taken into account the opinions of the internal and external auditors. The Committee has noted that University management is continuing to work towards further strengthening of the control environment with a particular focus on those areas of significant risk within the wider control framework. Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material mis-statement or loss.

### On behalf of the University Court

Dr Frances Dow, CBE  
Chair  
6 December 2017

Professor Petra Wend  
Principal & Vice-Chancellor

## RESPONSIBILITIES OF THE UNIVERSITY COURT

In accordance with the Companies Act and the University's Statutory Instrument, the University Court is responsible for the strategic development of the University, and also for ensuring that the affairs of the University are administered and managed appropriately, including ensuring an effective system of internal control, and that audited financial statements are presented for each financial year.

The University Court is responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the University and enable it to ensure that the financial statements are prepared in accordance with the University's Memorandum and Articles of Association, the Statement of Recommended Practice: Accounting for Further and Higher Education and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the University Court, the University Court, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the University Court has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. The University Court is satisfied that the University has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The University Court has taken reasonable steps to:

- ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the University and prevent and detect fraud;
- secure the economical, efficient and effective management of the University's resources and expenditure.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNIVERSITY COURT OF QUEEN MARGARET UNIVERSITY, EDINBURGH

## Opinion

We have audited the financial statements of Queen Margaret University, Edinburgh for the year ended 31 July 2017 which comprise the Consolidated and University Statement of Comprehensive Income and Expenditure, the Consolidated and University Statement of Changes in Reserves, the Consolidated and University Balance Sheet, the Consolidated Cash Flow, the Statement of Accounting Policies and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the University's affairs as at 31 July 2017 and of the Group's and the University's deficit and the Group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK" and with the Statement of Recommended Practice: Accounting for Further and Higher Education; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of the Charities Accounts (Scotland) Regulations 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the University in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

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

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

## Other information

The other information comprises the information included in the annual report set out on pages 2-21, other than the financial statements and our auditor's report thereon. The University Court is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

## Opinion on other matters prescribed by the terms of our engagement

In our opinion, in all material respects:

- funds from whatever source administered by the institution for specific purposes have been applied properly to those purposes and, if relevant, managed in accordance with relevant legislation, and any other terms and conditions attached to them; and
- funds provided by Scottish Funding Council have been applied in accordance with the requirements of the SFC Financial Memorandum with Higher Education Institutions.



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNIVERSITY COURT OF QUEEN MARGARET UNIVERSITY, EDINBURGH (continued)

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 and the Charities Accounts (Scotland) Regulations 2006 (as amended) requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

## Responsibilities of the University Court

As explained more fully in the Statement of the Responsibilities of the University Court set out on page 15, the University Court is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the University Court determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and under the Companies Act 2006 and report in accordance with regulations made under those Acts.

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

This report is made solely to the University Court of Queen Margaret University, Edinburgh, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and with section 44 (1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audit work has been undertaken so that we might state to the University Court those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Queen Margaret University, Edinburgh and the University Court as a body, for our audit work, for this report, or for the opinions we have formed.

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

Stephen Reid (Senior Statutory Auditor)  
For and on behalf of Ernst & Young LLP (Statutory Auditor)  
Edinburgh  
[Date]

## Notes:

1. The maintenance and integrity of Queen Margaret University, Edinburgh's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

### (A) Basis of preparation

The financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2015 ("SORP 2015") and in accordance with Financial Reporting Standard (FRS) 102 and with the Accounts Direction issued by the Scottish Funding Council.

The University is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings. The financial statements have been prepared on a going concern basis. Additional commentary on the process which the Court has undertaken in arriving at the view that the accounts should be prepared on a going concern basis is set out in the Strategic Report, under the section on Management of principal risks and uncertainties. The accounting policies have been applied consistently throughout the year. The functional currency of the University is pounds sterling, and the financial statements have been prepared to rounded £000s.

### (B) Basis of consolidation

The consolidated financial statements include the University and its subsidiary undertaking for the financial year ended 31 July 2017. Details of QMU Enterprises are given in note 13. Intra-group transactions are eliminated on consolidation. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated.

The consolidated financial statements do not include the results of the Queen Margaret University Students' Union on the grounds that it is a separate legal entity in which the University has no financial interest and exerts no control or significant influence over policy decisions.

### (C) Recognition of income

Tuition fee income is stated gross of any expenditure which is not a discount and is credited to the Consolidated Statement of Comprehensive Income & Expenditure over the period during which students are studying. Where the amount of the tuition fee is reduced by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and are not deducted from income.

Income from the sale of goods and services is credited to income in the year in which the goods or services are supplied to the customer or the terms of the contract have been satisfied.

Investment income is credited to income on a receivable basis.

Funds which the University receives and disburses as paying agent on behalf of a funding body or other body, where the institution is exposed to minimal risk or enjoys minimal economic benefit related to the receipt and subsequent disbursement of funds, are excluded from the income and expenditure of the University.

#### Grant funding

Recurrent grants from the Scottish Funding Council are credited to income in the period in which they are receivable. Non-recurrent grants and donations are recognised when they are receivable and when performance conditions have been met. Income received in advance of performance conditions being met is included in creditors as deferred income. Where there are no performance conditions, income is recognised when it is receivable.

#### Donations and endowments

Donations and endowments with donor-imposed restrictions are recognised as income when the University is entitled to the funds. Income is retained within the restricted reserve until such time as it is utilised in line with such restrictions, at which point the income is released to the general reserve through a reserve transfer. Donations with no restrictions are recognised as income when the University is entitled to the funds.

#### Capital grants

Government capital grants are recognised as income over the expected useful life of the asset. Other capital grants are recognised as income when the University is entitled to the funds subject to any performance-related conditions being met.

## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

### (D) Accounting for retirement benefits

Retirement benefits for employees of the University are provided by the Local Government Pension Scheme (LGPS) through the Lothian Pension Fund, the Scottish Teachers' Superannuation Scheme (STSS) and the Universities' Superannuation Scheme (USS). All three are defined benefit schemes.

#### Local Government Pension Fund

The Lothian Pension Fund is a funded multi-employer defined benefit scheme, with the assets held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The University recognises a liability for its share of obligations under the scheme net of its share of plan assets. This net defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in current and prior periods, discounted to determine its present value, less the fair value (at bid price) of plan assets. The fund is valued every three years by professionally qualified independent actuaries using the projected unit method. Where the calculation results in a net asset, recognition of the asset is limited to the extent to which the University is able to recover its share of the surplus, either through reduced contributions in the future or through refunds from the plan.

#### Scottish Teachers' Superannuation Scheme

The STSS is an unfunded multi-employer defined benefit scheme. Contributions are credited to the Exchequer, and the Exchequer effectively meets the costs of all benefits. The financing of the scheme is based on the standard methodology for unfunded public service pension schemes known as Superannuation Contributions Adjusted for Past Experience (SCAPE). Under SCAPE, an account is maintained ("the Account"), to which contributions from members and employers are credited and from which expenditure on benefits (including pension increases under the Pensions (Increase) Acts) is debited. The Account is also credited with interest at the long-term rate determined by HM Treasury from time to time, after taking advice from the Government Actuary. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has accounted for its contributions as if it were a defined contribution scheme. The University has no obligation for other employers' obligations to the multi-employer scheme.

#### Universities' Superannuation Scheme

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

In a number of instances the University has agreed to provide enhanced pension benefits in respect of members of staff taking early retirement. These additional benefits are unfunded and are charged, as and when they arise, against a provision established when members retire to meet this liability. This provision relates to former members of staff who are members of the STSS and a small number of staff in receipt of ex-gratia pension payments from the University.

### (E) Employment benefits

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employee renders service to the University. Any unused benefits are accrued and measured as the additional amount that the University expects to pay as a result of the unused entitlement.

## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

### (F) Leases and hire purchase contracts

Rentals under operating leases are charged to the income and expenditure account on a straight-line basis over the lease term. Any lease premiums or incentives are spread over the minimum lease term.

Leasing agreements which transfer to the University substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied in order to reduce outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

### (G) Foreign currency translations

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial year, with all resulting exchange differences being taken to the income and expenditure account in the year in which they arise.

### (H) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Certain items of fixed assets which had been revalued to fair value on or prior to the date of transition to SORP 2015 are measured on the basis of deemed cost, being the revalued amount at the date of that valuation.

Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

Land and Buildings are stated at cost or valuation. Land and Buildings are externally valued every five years. The basis of valuation is depreciated replacement cost. In the period between external valuations the University Court reviews the value of the assets. Where the value of the Land and Buildings is considered to be below cost, either by external valuation or as a result of the Court's review, and this is considered to be a permanent diminution in value, the difference is charged to the income & expenditure account as an impairment charge. The most recent external valuation of the main campus was carried out at 31 July 2013 by Gerald Eve, Chartered Surveyors.

Costs incurred in relation to a tangible fixed asset after its initial purchase or production are capitalised to the extent that they increase the expected future benefits to the University from the existing tangible fixed asset beyond its previously assessed standard of performance. The cost of routine maintenance is not capitalised, but is charged to the income and expenditure account in the year in which it is incurred.

Heritable land is not depreciated. Heritable buildings are depreciated on a straight line basis over their expected useful lives of between 10 and 50 years. No depreciation is charged on assets in the course of construction.

Equipment, including computer equipment and software, costing less than £10,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised and depreciated on a straight line basis over periods ranging from three to five years, being its expected useful life. A full year's depreciation charge is made in the year of acquisition of the item of equipment.

### (I) Investments

Investments in subsidiaries are shown at cost. Current asset investments are held at fair value with any movements recognised in the surplus or deficit.

### (J) Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. No investments, however liquid, are included as cash. Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and loan stock held as part of the University's treasury management activities.

## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

### (K) Provisions, contingent liabilities and contingent assets

Provisions are recognised when the University has a present legal or constructive obligation as a result of a past event, it is probable that an outflow 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.

A contingent liability arises from a past event that imposes upon the University a possible obligation, the existence of which will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University. A contingent liability may also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or where the amount of the obligation can not be measured reliably.

A contingent asset arises where an event has taken place which entitles the University to a possible asset, the existence of which will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed by way of a note.

### (L) Taxation

The University is an exempt Charity within the meaning of the Trustee Investment and Charities (Scotland) Act 2005, and as such is a charity within the meaning of section 506(1) of the Income and Corporation Taxes Act 1988. The University is recognised as a charity by HM Revenue & Customs and is recorded on the index of charities maintained by the Office of the Scottish Charity Regulator. It is therefore a charity within the meaning of Para 1 of schedule 6 to the Finance Act 2010 and accordingly, the University is potentially exempt from taxation in respect of income and capital gains received within categories covered by sections 478 to 488 of the Corporation Tax Act 2010 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively for charitable purposes.

The University receives no similar exemption in respect of Value Added Tax (VAT). Irrecoverable VAT arising from expenditure on non-trading activities is charged to the income and expenditure account. Any irrecoverable VAT allocated to fixed assets is included in their cost.

### (M) Reserves

Reserves are classified as either restricted or unrestricted. Restricted endowment reserves include balances which, through endowment to the University, are held as a permanently restricted fund which the University must hold in perpetuity. Other restricted reserves include balances where the donor has designated a specific purpose and therefore the University is restricted in the purposes for which it may use these funds.

### (N) Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. It is the view of the directors that there are no significant or material accounting judgements. The following is the key source of estimation uncertainty:

#### *Pension and other post-employment benefits*

The cost of defined benefit pension plans and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Further details are given in note 20 to the financial statements.

## STATEMENTS OF COMPREHENSIVE INCOME AND EXPENDITURE

For the Year Ended 31 July 2017

	Note	2016/17		2015/16	
		£000 Consolidated	£000 University	£000 Consolidated	£000 University
<b>INCOME</b>					
Tuition fees and education contracts	1	12,885	12,885	12,738	12,738
Scottish Funding Council grants	2	15,681	15,681	15,313	15,313
Research grants and contracts	3	1,601	1,532	1,759	1,735
Other income	4	8,777	8,564	6,593	6,172
Investment income	5	13	13	29	28
Donations and endowments	6	195	195	188	188
<b>Total income</b>		<b>39,152</b>	<b>38,870</b>	<b>36,620</b>	<b>36,174</b>
<b>EXPENDITURE</b>					
Staff costs	7	23,423	23,312	21,884	21,808
Other operating expenses	11	9,832	9,661	10,158	9,788
Depreciation	12	4,950	4,950	4,787	4,787
Interest and other finance costs	8	1,720	1,720	1,618	1,618
<b>Total expenditure</b>		<b>39,925</b>	<b>39,643</b>	<b>38,447</b>	<b>38,001</b>
<b>(Deficit) / surplus before tax</b>		<b>(773)</b>	<b>(773)</b>	<b>(1,827)</b>	<b>(1,827)</b>
Taxation	10	-	-	-	-
<b>(Deficit) / surplus for the year</b>		<b>(773)</b>	<b>(773)</b>	<b>(1,827)</b>	<b>(1,827)</b>
Actuarial (loss)/gain in respect of pension schemes		3,011	3,011	(1,476)	(1,476)
<b>Total comprehensive income for the year</b>		<b>2,238</b>	<b>2,238</b>	<b>(3,303)</b>	<b>(3,303)</b>

### Represented by:-

Endowment comprehensive income for the year	12	12	19	19
Unrestricted comprehensive income for the year	2,362	2,362	(3,186)	(3,186)
Revaluation reserve comprehensive income for the year	(136)	(136)	(136)	(136)
	<b>2,238</b>	<b>2,238</b>	<b>(3,303)</b>	<b>(3,303)</b>

All items of income and expenditure relate to continuing activities.

## STATEMENTS OF CHANGES IN RESERVES

For the Year Ended 31 July 2017

**Consolidated**  
£000s

	Income & Expenditure Account		Revaluation reserve	Total
	Endowments	Unrestricted		
<b>Balance at 1 August 2015</b>	<b>460</b>	<b>22,385</b>	<b>7,535</b>	<b>30,380</b>
Surplus/ (deficit) from the income & expenditure statement	19	(3,322)	-	(3,303)
Transfer between revaluation and income & expenditure reserves	-	136	(136)	-
	<b>19</b>	<b>(3,186)</b>	<b>(136)</b>	<b>(3,303)</b>
<b>Balance at 1 August 2016</b>	<b>479</b>	<b>19,199</b>	<b>7,399</b>	<b>27,077</b>
Surplus/ (deficit) from the income and expenditure statement	12	2,226	-	2,238
Transfer between revaluation and income & expenditure reserves	-	136	(136)	-
	<b>12</b>	<b>2,362</b>	<b>(136)</b>	<b>2,238</b>
<b>Balance at 31 July 2017</b>	<b>491</b>	<b>21,561</b>	<b>7,263</b>	<b>29,315</b>

## BALANCE SHEETS AS AT 31 JULY 2017

	Note	Consolidated		University	
		2017 £000	2016 £000	2017 £000	2016 £000
<b>FIXED ASSETS</b>					
Tangible assets	12	82,144	86,170	82,144	86,170
Investments	13	-	-	-	-
		<u>82,144</u>	<u>86,170</u>	<u>82,144</u>	<u>86,170</u>
<b>CURRENT ASSETS</b>					
Trade and other receivables	14	2,945	1,622	3,574	2,185
Current asset investments		-	141	-	141
Cash at bank and in hand		8,352	7,936	7,548	7,198
		<u>11,297</u>	<u>9,699</u>	<u>11,122</u>	<u>9,524</u>
<b>CREDITORS: amounts falling due within one year</b>	15	<u>(7,262)</u>	<u>(8,248)</u>	<u>(7,087)</u>	<u>(8,073)</u>
<b>NET CURRENT ASSETS / (LIABILITIES)</b>		<u>4,035</u>	<u>1,451</u>	<u>4,035</u>	<u>1,451</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>86,179</u>	<u>87,621</u>	<u>86,179</u>	<u>87,621</u>
<b>CREDITORS :amounts falling due after more than one year</b>	16	<u>(41,393)</u>	<u>(43,353)</u>	<u>(41,393)</u>	<u>(43,353)</u>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	17	<u>(15,471)</u>	<u>(17,191)</u>	<u>(15,471)</u>	<u>(17,191)</u>
<b>NET ASSETS</b>		<u><b>29,315</b></u>	<u><b>27,077</b></u>	<u><b>29,315</b></u>	<u><b>27,077</b></u>
<b>RESTRICTED RESERVES</b>					
Income & expenditure reserve – endowment reserve	18	491	479	491	479
<b>UNRESTRICTED RESERVES</b>					
Income & expenditure reserve – unrestricted		21,561	19,199	21,561	19,199
Revaluation reserve	19	7,263	7,399	7,263	7,399
<b>TOTAL RESERVES</b>		<u><b>29,315</b></u>	<u><b>27,077</b></u>	<u><b>29,315</b></u>	<u><b>27,077</b></u>

Queen Margaret University, Edinburgh  
Company registered in Scotland no. SC007335

The financial statements on pages 18 to 39 were approved by the University Court on 6 December 2017 and signed on its behalf by:

Dr Frances Dow, CBE  
Chair

Professor Petra Wend  
Principal and Vice-Chancellor



## CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 July 2017

	Note	2016/17 £000	2015/16 £000
<b>Cash inflow from operating activities</b>			
Surplus / (deficit) for the year		(773)	(1,827)
<b>Adjustments for non-cash items</b>			
Depreciation	12	4,950	4,787
Deferred capital grants released	16	(468)	(528)
Pension costs less contributions payable		1,455	1,135
(Increase) / decrease in operating debtors		(1,323)	59
Increase / (decrease) in operating creditors		(526)	(1,373)
Increase / (decrease) in pension provision		(164)	(125)
<b>Adjustments for investing or financing activities</b>			
Investment income and interest receivable		(13)	(47)
Interest payable		1,385	1,215
		<hr/>	<hr/>
<b>Net cash inflow / (outflow) from operating activities</b>		4,523	3,296
<b>Cash flows from investing activities</b>			
Proceeds from sale of endowment assets		176	64
Investment income		17	28
Payments made to acquire fixed assets		(1,393)	(1,834)
Payments made to acquire endowment assets		(30)	(55)
		<hr/>	<hr/>
		(1,230)	(1,797)
<b>Cash flows from financing activities</b>			
Interest paid		(1,385)	(1,215)
Repayments of amounts borrowed		(1,492)	(1,492)
		<hr/>	<hr/>
		(2,877)	(2,707)
<b>Increase / (decrease) in cash and cash equivalents in the year</b>			
		<hr/>	<hr/>
		416	(1,208)
Cash and cash equivalents at beginning of the year		7,936	9,144
Cash and cash equivalents at end of the year		8,352	7,936
		<hr/>	<hr/>
		416	(1,208)

## NOTES TO THE FINANCIAL STATEMENTS

### 1. TUITION FEES AND EDUCATION CONTRACTS (consolidated and university)

	2016/17	2015/16
	£000	£000
Scottish higher education students	5,208	5,085
Rest of UK students	1,402	1,451
European Union (excluding UK) students	2,192	2,048
Non-European Union students	2,485	2,677
Other fees and discounts	(82)	32
Education contracts	1,680	1,445
	<b>12,885</b>	<b>12,738</b>

### 2. SCOTTISH FUNDING COUNCIL GRANTS (consolidated and university)

	2016/17	2015/16
	£000	£000
Recurrent grant		
Teaching	12,142	12,296
Research	951	765
Specific grants		
Wider access retention premium	586	586
Regional Coherence - Academies programme	-	312
Disabled student premium	54	53
Knowledge exchange / University innovation fund	350	334
Scottish Drama Training Network	148	148
Capital maintenance grant released	982	309
Other miscellaneous grants	-	54
Deferred capital grants released (note 16)		
Land & buildings	468	456
Equipment	-	-
	<b>15,681</b>	<b>15,313</b>

### 3. RESEARCH GRANTS & CONTRACTS

	Consolidated		University	
	2016/17	2015/16	2016/17	2015/16
	£000	£000	£000	£000
Research councils	158	93	158	93
UK based charities	212	322	176	322
UK government and health authorities	927	1,139	919	1,115
UK private sector	64	11	41	11
European funding	-	-	-	-
Other grants & contracts	240	194	238	194
	<b>1,601</b>	<b>1,759</b>	<b>1,532</b>	<b>1,735</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 4. OTHER OPERATING INCOME

	Consolidated		University	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Residences, catering and conferences	4,844	4,609	4,620	4,335
Other services rendered	999	1,024	829	877
Sports centre income	235	236	235	236
Released from deferred capital grants (note 16)	-	72	-	72
Other income	2,699	652	2,880	652
	<b>8,777</b>	<b>6,593</b>	<b>8,564</b>	<b>6,172</b>

### 5. INVESTMENT INCOME

	Consolidated		University	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Investment income on endowments	2	1	2	-
Other investment income	11	28	11	28
Net return on pension scheme	-	-	-	-
	<b>13</b>	<b>29</b>	<b>13</b>	<b>28</b>

### 6. DONATIONS AND ENDOWMENTS (consolidated and university)

	2016/17 £000	2015/16 £000
New endowments	-	-
Unrestricted donations	195	188
	<b>195</b>	<b>188</b>

### 7. STAFF COSTS

	Consolidated		University	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Staff costs				
Wages and salaries	17,779	16,890	17,669	16,814
Social security costs	1,774	1,450	1,773	1,450
Movement on USS provision	1	5	1	5
Other pension costs	3,869	3,539	3,869	3,539
	<b>23,423</b>	<b>21,884</b>	<b>23,312</b>	<b>21,808</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Emoluments of the Principal and Vice-Chancellor

(who was also the highest paid Member of the University Court)

	2016/17 £000	2015/16 £000
Professor Petra Wend	-	-
Salary	210	202
Employers' pension contributions	27	34
In lieu of employers' pension contribution	8	-
Benefits in kind	2	2
	<b>247</b>	<b>238</b>

Pension contributions for Professor Wend are in respect of employers' contributions to the Scottish Teachers' Superannuation Scheme, and are paid at the same rate as for other employees in that scheme. Employer pension contributions have reduced as a result of the Principal opting out of the pension scheme part way through the year. Additional payments equivalent to pensions contributions foregone are included within emoluments.

### Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the University: this comprises the Executive Board. The total compensation for the year ended 31 July 2017 (including any employers' pension contributions) was £888,000 (year ended 31 July 2016, £902,000).

### University Court members

The University Court members are the trustees for charitable law purposes and are also the directors of the company limited by guarantee for company law purposes. Due to the nature of the University's operations and the composition of the University Court (being drawn from local public and private sector organisations), it is inevitable that transactions will take place with organisations in which a member of the University Court may have an interest. All transactions involving organisations in which a member of the University Court may have an interest are conducted at arm's length, and in accordance with the University's financial regulations and normal procurement procedures. University Court members receive no remuneration in respect of their duties as members of the University Court. A number of members of the University Court, including the Principal and Vice-Chancellor, receive a salary in respect of their employment with the University. Detail of such remuneration is set out below.

	2016/17 £000	2015/16 £000
Directors' emoluments (including pension contributions)		
Fees for services as members of University Court	-	-
Emoluments (i.e. salaries as members of staff)	463	478
Contributions paid to pension schemes	69	81
Benefits in kind	3	4
	<b>535</b>	<b>563</b>

These figures relate to eight members of staff (2015/16: six), including the Principal.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

The number of members of staff, including the Principal, who received remuneration (including benefits and excluding pension contributions) in the following ranges was:-

	2016/17 Number	2015/16 Number
<b>Senior postholders</b>		
£100,001 to £110,000	1	-
£110,001 to £120,000	1	-
£120,001 to £130,000	-	1
£200,001 to £210,000	-	1
£210,001 to £220,000	1	-

	2016/17 £000	2015/16 £000
<b>Compensation for loss of office</b>		
Compensation payable in respect of senior postholders	-	-

	2016/17 FTE number	2015/16 FTE number
Average full time equivalent staff numbers by major category: (consolidated and university)		
Academic schools	194	190
Academic services	55	50
Research grants & contracts	30	31
Residences, catering & conferences	29	29
Premises	22	24
Administration & central services	111	111
	<b>441</b>	<b>435</b>

### 8. INTEREST PAYABLE AND OTHER FINANCE COSTS

	Consolidated		University	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Loan interest	1,385	1,215	1,385	1,215
Finance lease interest	-	-	-	-
Net charge on pension scheme	335	403	335	403
	<b>1,720</b>	<b>1,618</b>	<b>1,720</b>	<b>1,618</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 9. ANALYSIS OF TOTAL EXPENDITURE BY ACTIVITY

	Consolidated		University	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Academic schools	12,732	12,373	12,732	12,373
Academic services	4,864	4,820	4,864	4,823
Research grants & contracts	1,480	1,390	1,455	1,390
Other services rendered	711	1,167	551	944
Residences, catering and conferences	2,705	4,664	2,616	4,441
Premises	7,118	6,550	7,118	6,550
Administration & central services	7,437	6,236	7,429	6,236
Other expenses	2,878	1,247	2,878	1,244
<b>Total per income and expenditure account</b>	<b>39,925</b>	<b>38,447</b>	<b>39,643</b>	<b>38,001</b>

### 10. TAXATION (consolidated and university)

	2016/17 £000	2015/16 £000
UK Corporation Tax payable	-	-
	-	-

### 11. OTHER OPERATING EXPENSES

	Consolidated		University	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
External audit	49	40	43	32
Internal audit	25	37	25	37
Grants to QMU Students' Union	242	240	242	240
Other expenses	9,516	9,841	9,351	9,479
	<b>9,832</b>	<b>10,158</b>	<b>9,661</b>	<b>9,788</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 12. TANGIBLE ASSETS

#### Consolidated and University

	Freehold land & buildings	Fixtures, fittings & equipment		TOTAL
	Owned	Owned	Held under finance leases	
	£000	£000	£000	£000
<b>Cost or valuation:</b>				
At 1 August 2016	96,289	7,886	1,271	105,446
Disposals at cost	-	-	-	-
Additions at cost	202	722	-	924
At 31 July 2017	<u>96,491</u>	<u>8,608</u>	<u>1,271</u>	<u>106,370</u>
<b>Depreciation:</b>				
At 1 August 2016	10,347	7,737	1,192	19,276
Written off on disposals	-	-	-	-
Provided during the year	4,616	308	26	4,950
At 31 July 2017	<u>14,963</u>	<u>8,045</u>	<u>1,218</u>	<u>24,226</u>
<b>Net book amount at 31 July 2017</b>	<b><u>81,528</u></b>	<b><u>563</u></b>	<b><u>53</u></b>	<b><u>82,144</u></b>
Net book amount at 1 August 2016	<u>85,942</u>	<u>149</u>	<u>79</u>	<u>86,170</u>
<b>Analysis of net book amount at 31 July 2017</b>				
Financed by capital grant	9,323	-	-	9,323
Other	72,205	563	53	78,821
	<u>81,528</u>	<u>563</u>	<u>53</u>	<u>82,144</u>

The valuation of the Craighall campus was carried out at 31 July 2013 by Gerald Eve, Chartered Surveyors. The basis of the valuation, which was carried out in accordance with guidelines issued by the Royal Institution of Chartered Surveyors, is depreciated replacement cost.

The University has a modest collection of works of art and other items of historical interest. No value is included within fixed assets in respect of this collection.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 13. INVESTMENTS

#### Subsidiary Undertaking

Name of undertaking	Country of incorporation and registration	Description of shares held	Proportion of nominal value of shares held	Cost at 1 August 2016 and 31 July 2017
			%	£
<b>QMU Enterprises Ltd</b>	Scotland	Ordinary £1 shares	100	100
				100

QMU Enterprises Limited undertakes activities which, for legal or commercial reasons, are more appropriately channelled through a separate limited company. These activities include vacation letting, conferences and rendering of services (other than research) for a variety of commercial and other organisations. The results of QMU Enterprises Limited have been consolidated into the group financial statements.

### 14. TRADE AND OTHER RECEIVABLES

	Consolidated		University	
	2017 £000	2016 £000	2017 £000	2016 £000
Amounts falling due within one year:				
Trade debtors	1,996	540	1,942	513
Prepayments and accrued income	949	1,082	928	1,081
Amounts due from subsidiaries	-	-	704	591
	<b>2,945</b>	<b>1,622</b>	<b>3,574</b>	<b>2,185</b>

### 15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Consolidated		University	
	2017 £000	2016 £000	2017 £000	2016 £000
Secured loans (see note 16)	1,492	1,492	1,492	1,492
Trade creditors	861	861	925	861
Social security and other taxation payable	519	482	487	458
Accruals and deferred income	4,346	5,329	4,139	5,178
Finance lease commitments due within one year	44	84	44	84
	<b>7,262</b>	<b>8,248</b>	<b>7,087</b>	<b>8,073</b>



## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<b>Consolidated and University</b>	
	2017	2016
	£000	£000
Secured loan	32,070	33,562
Deferred capital grants	9,323	9,791
	<b>41,393</b>	<b>43,353</b>
Analysis of secured loans:-		
Due between one and two years	1,492	1,492
Due between two and five years	4,475	4,475
Due in five years or more	26,103	27,595
Total due after more than one year	32,070	33,562
Due within one year (note 15)	1,492	1,492
Total secured loans	33,562	35,054

The secured long-term facility with Barclays Bank plc is £33.6 million, and has a final maturity date of 17 December 2024. The loan is secured over the campus site at Musselburgh. The University has entered into a fixed-rate arrangement in order to protect itself against any significant fluctuations in interest rates. The terms of this arrangement are commercially confidential.

### Analysis of deferred capital grants

	<b>Consolidated and University</b>	
	2017	2016
	£000	£000
Opening balance : buildings	9,791	10,319
Opening balance : equipment	-	-
	9,791	10,319
Receivable : buildings	-	-
Receivable : equipment	-	-
	-	-
Release : buildings	468	528
Release : equipment	-	-
	468	528
Closing balance : buildings	9,323	9,791
Closing balance : equipment	-	-
	<b>9,323</b>	<b>9,791</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 17. PROVISIONS FOR LIABILITIES

<b>Consolidated and University</b> Pensions £000	Obligation to fund deficit on USS Pension £000	Pension enhancements £000	Defined Benefit Obligations LGPS £000	Total Pensions Provisions £000
At 1 August 2016	368	3,395	13,428	<b>17,191</b>
Utilised in year	(28)	(229)	-	<b>(257)</b>
Transfer from income & expenditure account	29	65	(1,557)	<b>(1,463)</b>
<b>At 31 July 2017</b>	<b>369</b>	<b>3,231</b>	<b>11,871</b>	<b>15,471</b>

The University has a liability for pension enhancements payable to former members of staff who have taken early retirement in prior years. An actuarial valuation of the amount of this liability was carried out by Hymans Robertson, Actuaries at 31 July 2017, on the basis of valuation prescribed by FRS 102, and using the same set of assumptions as are set out in note 20 in relation to the valuation of the Local Government Pension Scheme.

The University also has a liability to fund the past deficit on the Universities' Superannuation Scheme (USS). This obligation arises from the contractual obligation with the pension scheme for total payments relating to benefits arising from past performance. Management have assessed future employees within the USS scheme and salary payment over the period of the contractual obligation in assessing the value of this provision.

### 18. ENDOWMENT RESERVES

#### Consolidated and University

	<b>Unrestricted</b> £000	<b>Restricted Expendable</b> £000	<b>Restricted Permanent</b> £000	<b>Restricted Total</b> £000	<b>Total</b> £000
<b>Balance at 1 August 2016</b>	-	433	46	479	479
Appreciation of endowment asset investments	-	(15)	-	(15)	(15)
Income for year	-	218	-	218	218
Expenditure for year	-	(191)	-	(191)	(191)
<b>At 31 July 2017</b>	<b>-</b>	<b>445</b>	<b>46</b>	<b>491</b>	<b>491</b>
Represented by:					
Capital value	-	-	35	35	35
Accumulated income	-	445	11	456	456
	-	445	46	491	491

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 19. REVALUATION RESERVE

	Consolidated and University	
	2017	2016
	£000	£000
At 1 August	7,399	7,535
Revaluation of land and buildings	-	-
Release to general reserve	(136)	(136)
At 31 July	<b>7,263</b>	<b>7,399</b>

### 20. PENSIONS AND SIMILAR OBLIGATIONS

The University's employees belong to three principal pension schemes, the Scottish Teachers Superannuation Scheme (STSS), the Local Government Pension Scheme (LGPS) and the Universities Superannuation Scheme (USS). The total pension cost for the year was £3,870,000 (2015/16: £3,539,000).

	Consolidated and University	
	Year ended 31 July 2017	Year ended 31 July 2016
	£000	£000
<i>The total pension charge is analysed as follows:-</i>		
Lothian Pension Fund (LGPS)	2,184	1,933
Scottish Teachers Superannuation Scheme	1,453	1,420
Universities Superannuation Scheme	233	186
	<b>3,870</b>	<b>3,539</b>

Estimated employers' pension contributions for the year to 31 July 2018 are £3,001,000.

#### A) Local Government Pension Scheme (LGPS)

The Lothian Pension Fund is a funded multi-employer defined benefit scheme, with the assets held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The trustees of the fund are required to act in the best interests of the fund's beneficiaries. The appointment of trustees to the fund is determined by the scheme's trust documentation. The trustees are responsible for setting the investment strategy for the scheme after consultation with professional advisors.

The following information is based upon a full actuarial valuation of the fund at 31 March 2014 updated to 31 July 2017 by a qualified independent actuary, Hymans Robertson LLP.

Assumptions at	31 July 2017	31 July 2016	31 July 2015
Pension increase rate	2.5%	1.9%	2.6%
Salary increase rate	4.5%	4.4%	4.5%
Expected return on assets	2.7%	2.4%	3.6%
Discount rate	2.7%	2.4%	3.6%

The fund is valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the scheme actuary reviews the progress of the scheme. The actuary has indicated that the resources of the scheme are likely, in the normal course of events, to be sufficient to meet the liabilities as they fall due at the level specified by the scheme regulations. The currently agreed employer's contribution rate for the University is 18.5%.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 20. PENSIONS AND SIMILAR OBLIGATIONS (continued)

#### A ) Local Government Pension Scheme (LGPS) (continued)

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice. The current mortality assumptions, which are consistent with those used for the latest formal funding valuation, include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement at age 65 are:-

	31 July 2017	31 July 2016
	No. of years	No. of years
<i>Current pensioners</i>		
Males	22.1	22.1
Females	23.7	23.7
<i>Future pensioners</i>		
Males	24.2	24.2
Females	26.3	26.3

#### Analysis of the amount shown in the balance sheet

	Value at 31 July 2017 £000	Value at 31 July 2016 £000	Value at 31 July 2015 £000	Value at 31 July 2014 £000	Value at 31 July 2013 £000
<b>Estimated employer assets (A)</b>	57,322	50,644	40,901	36,535	33,477
Present value of scheme liabilities	(68,492)	(63,303)	(50,918)	(46,362)	(38,740)
Present value of unfunded liabilities	(701)	(769)	(804)	(776)	(753)
<b>Total value of liabilities (B)</b>	<b>(69,193)</b>	<b>(64,072)</b>	<b>(51,722)</b>	<b>(47,138)</b>	<b>(39,493)</b>
<b>Net pension liability (A) – (B)</b>	<b>(11,871)</b>	<b>(13,428)</b>	<b>(10,821)</b>	<b>(10,603)</b>	<b>(6,016)</b>

#### Analysis of movements in the present value of the scheme liabilities

	31 July 2017 £000	31 July 2016 £000
<b>Opening defined benefit obligation</b>	<b>64,072</b>	<b>51,722</b>
Current service cost	2,394	2,012
Interest cost	1,556	1,885
Contributions by members	430	420
Actuarial losses	1,921	9,156
Past service costs	-	47
Unfunded benefits paid	(46)	(51)
Benefits paid	(1,134)	(1,119)
<b>Closing defined benefit obligation</b>	<b>69,193</b>	<b>64,072</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 20. PENSIONS AND SIMILAR OBLIGATIONS (continued)

#### A ) Local Government Pension Scheme (LGPS) (continued)

##### Analysis of movement in the market value of the scheme assets

	31 July 2017	31 July 2016
	£000	£000
<b>Opening fair value of employer assets</b>	<b>50,644</b>	<b>40,901</b>
Expected return on assets	4,932	7,680
Contributions by members	430	420
Contributions by employer	1,229	1,279
Contributions in respect of unfunded benefits	46	51
Actuarial (losses)/gains	1,221	1,483
Unfunded benefits paid	(46)	(51)
Benefits paid	(1,134)	(1,119)
<b>Closing fair value of employer assets</b>	<b>57,322</b>	<b>50,644</b>

#### B ) Scottish Teachers' Superannuation Scheme (STSS)

The STSS is an unfunded multi-employer defined benefit scheme. The Scheme is financed by contributions from employers and current members of the Scheme. The contributions paid to the Scheme fall into general government revenues. There is no actual fund of assets but an account is maintained of a notional fund made up of contributions paid by employers and members, supplemented by a return on the notional fund at a pre-determined rate and reduced by benefits as and when they are paid to retired and former members of the Scheme. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has accounted for its contributions as if it were a defined contribution scheme. The University has no obligation for other employers' obligations to the multi-employer scheme.

The last audited full actuarial and funding valuation of the scheme was carried out at 31 March 2012. This valuation used the Projected Unit Methodology. With effect from 1 September 2015, the employer contribution rate has been set at 17.2%. Employee contributions are dependant upon the member's salary bracket. The notional fund at 31 March 2012 amounted to £19.6 billion, and total Scheme liabilities for service amounted to £20.9 billion, giving a notional past service deficit of £1.3 billion. The next valuation will be based on scheme data as at 31 March 2016, and any changes arising from that valuation will be applied from 1 April 2019.

#### C ) Universities Superannuation Scheme (USS)

The University participates in the Universities Superannuation Scheme (the scheme). Throughout the preceding period, the scheme was a defined benefit only pension scheme until 31 March 2016 which was contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. 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 Section 28 of FRS 102 "Employee 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. Since the institution has entered into an agreement (the Recovery Plan that determines how each employer within the scheme will fund the overall deficit), the institution recognises a liability for the contributions payable that arise from the agreement to the extent that they relate to the deficit and the resulting expense in the income and expenditure account.

The total cost charged to the consolidated income and expenditure account is £29,000 (2016: £181,000) and included in note 7. The latest available full actuarial valuation of the scheme was at 31 March 2014 ("the valuation date"), which was carried out using the projected unit method. The valuation as at 31 March 2017 is underway. Since the institution cannot identify its share of scheme assets and liabilities, the following disclosures reflect those relevant for the scheme as a whole.

The 2014 valuation was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. The assets therefore were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future increases in earnings

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 20. PENSIONS AND SIMILAR OBLIGATIONS (continued)

#### C ) Universities Superannuation Scheme (USS) (continued)

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

	<b>2017</b>	<b>2016</b>
Discount rate	2.57%	3.6%
Pensionable salary growth.	N/A	N/A
Price inflation (CPI)	2.41%	2.2%

The main demographic assumption used relates to the mortality assumptions. Mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) SINA tables as follows:

Male members' mortality	98% of SINA ["light"] YoB tables – no age rating
Female members' mortality	99% of SINA ["light"] YoB tables – rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience. To allow for further improvements in mortality rates the CMI 2014 projections with a 1.5% pa long term rate were also adopted. The current life expectancies on retirement at age 65 are:

	<b>2017</b>	<b>2016</b>
Males currently aged 65 (years)	24.4	24.3
Females currently aged 65 (years)	26.6	26.5
Males currently aged 45 (years)	26.5	26.4
Females currently aged 45 (years)	29.0	28.8

<b>Existing benefits</b>	<b>2017</b>	<b>2016</b>
Scheme assets	£60.0 billion	£49.8 billion
Total scheme liabilities	£77.5 billion	£58.3 billion
FRS 102 total scheme deficit	£17.5 billion	£8.5 billion
FRS17 funding level	77%	85%

#### D ) Other pension liabilities

The University has a liability for pension enhancements payable to former members of staff who have taken early retirement in prior years. An actuarial valuation of the amount of this liability was carried out by Hymans Robertson, Actuaries at 31 July 2017, on the basis of valuation prescribed by FRS 102. The total provision in respect of this liability is £3.231 million (2016: £3.395 million).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 21 HARDSHIP AND CHILDCARE FUNDS

	2016/17 £000	2015/16 £000
<b>HARDSHIP FUND</b> (undergraduate and postgraduate)		
Balance at 1 August	-	-
Amounts received from Student Awards Agency for Scotland	239	236
Amount vired (to)/from Childcare Fund	46	(8)
	<u>285</u>	<u>228</u>
Disbursed to students	(242)	(222)
Other costs	(36)	-
Refunded to Student Awards Agency for Scotland	(7)	(6)
	<u>-</u>	<u>-</u>
Balance unspent at 31 July	-	-
<b>CHILDCARE FUND</b>		
Balance at 1 August	-	-
Amounts received from Student Awards Agency for Scotland	137	123
	<u>137</u>	<u>123</u>
Disbursed to students	(77)	(127)
Amount vired (to)/from Hardship Fund	(46)	8
Refunded to Student Awards Agency for Scotland	(14)	(4)
	<u>-</u>	<u>-</u>
Balance unspent at 31 July	-	-

Amounts received from the Student Awards Agency for Scotland are available solely for students; the University acts only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.



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