



Queen Margaret University  
EDINBURGH

# Strategic Report and Financial Statements

FOR THE YEAR ENDED 31st July 2016

Registered No. SC007335  
Scottish Charity No. SC002750



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## PRINCIPAL'S REPORT for the year ended 31 July 2016



Implementation of our new QM150 strategic plan began in earnest this year, following its launch in January. Developed through our QM150 strategic planning exercise, the plan covers the period up to 2025, the year in which we will celebrate our 150th anniversary. Underpinning it is our vision to be a university of ideas and influence: in other words, we will focus on theory and practice, on ground-breaking research and on addressing real-world issues.

Through the framework provided by our QM150 strategy, there have been a number of significant developments this year in our flagship areas of health and rehabilitation, creativity and culture, and sustainable business.

We launched nine research and knowledge exchange centres this spring, fulfilling a plan put in place in the previous financial year. Reflecting our strong Research Excellence Framework (REF) 2014 results, the centres are tackling issues from food innovation and development to global health and development; and from health, activity and rehabilitation to consumer dispute resolution. Our staff teams are working on significant research projects addressing pressing social issues such as the growing challenge of dementia; the spread of tuberculosis; facilitating refugee integration; supporting carers of people with serious health conditions; and how to grow family businesses. We continue to lead the world in the use of visual biofeedback in speech therapy.

Adapting to the changing needs of society, we are constantly refreshing our course portfolio, this year launching a new suite of postgraduate business courses. These programmes capitalise on our niche areas of expertise and national priorities - in family and small businesses, events, tourism and public service management. In addition, we celebrated the 10th anniversary of Audiology teaching and research in the University, delivering much needed qualified audiologists to the NHS.

Pleasing National Student Survey (NSS) results from this year show that our new Student Experience Strategy, which is closely aligned to our QM150 strategy, is starting to bear fruit. We received a score of 86% for overall student satisfaction, up 1% on last year. This exceeds our benchmark of 84%, and matches both the Scottish and UK averages. Some of our programmes now rank top in the UK or Scotland in the NSS.

Now that the student accommodation on campus is wholly owned and controlled by the University, we have been able to optimise our offering to meet student requirements. As well as resulting in full occupancy, this is helping to enhance the student experience and therefore also student retention rates.

Looking beyond our work with current students to that targeting incoming students, application numbers generally are buoyant. We continue to build on our existing success in widening participation to ensure that we fulfil people's potential, whatever their background. We are committed to de-mystifying higher education and our approach to this is distinctive in that we work with younger children as well as senior school pupils. Notably, we are the first university in the east of Scotland to host the Children's University and we have so far attracted over 3,000 participants to this scheme. Complementing this, 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.

Over the last year, we have made significant progress in terms of gaining support for our vision for use of land around the campus. One important factor has been a milestone decision by East Lothian councillors this year to approve the proposed Local Development Plan (LDP) for East Lothian. The proposed LDP designates the land adjacent to the University campus for economic uses, in other words, for the sort of use envisaged in our Edinburgh Innovation Park proposals. Realisation of our proposals will make a huge contribution to our aspiration to be a 'community without borders' as articulated in our QM150 strategy. The project has the potential to create up to 13,000 jobs, enhance our industry engagement, and increase opportunities for student placements.

We are, of course, an outward looking, internationally focused university that greatly values our international students and staff, recognising their crucial contribution to our cultural richness and academic outputs. We have continued to expand our international footprint over the last year with the launch of a suite of new courses in partnership with Athens Metropolitan College; and establishment of a collaborative partnership in the Czech Republic so that students living there can study for our courses. In total international (non EU) students make up 17.3% of our student population with EU (non UK) students totalling 19.1%. We follow 'BREXIT' developments closely and are playing a full part in sectoral and national discussions on the subject.

Whilst there is no doubt that all universities face challenges relating to BREXIT, global geo-politics and the economy, our underlying year end results show that we are responding to our fast changing operating environment with agility, imagination and confidence. We have a sound strategy and approach and are most certainly delivering on our vision being a university of ideas and influence.

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 17 to 45 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. Implementation of SORP 2015 required the University to restate its comparative information from the transition date of 1 August 2014. The financial impact of the change to the results for the year and the comparative year are presented in note 21 to the accounts.

### Development of strategic plan

In December 2015, following a wide consultation process, 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 the next ten years, 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

This is the first year in which the University's results are reported under SORP 2015, which gives effect to the requirements of FRS 102. The implementation of SORP 2015 has brought about some significant changes to the reported figures in both the Statement of Comprehensive Income & Expenditure and in the year end Balance Sheets. These changes are explained in more detail below, and are analysed in more detail in note 21 to the accounts.

The Group's consolidated results for the year to 31 July 2016 are summarised as follows:-

	<b>2015/16</b>	<b>2014/15</b>
	<b>£million</b>	<b>£million</b>
Total income	36.6	36.5
Total expenditure	(38.4)	(38.9)
Adjustments relating to deconsolidation of QMSS	-	0.8
<b>(Deficit) / surplus for the year</b>	<b>(1.8)</b>	<b>(1.6)</b>
Actuarial (loss) /gain in respect of pension schemes	(1.5)	0.9
<b>Total comprehensive income for the year</b>	<b>(3.3)</b>	<b>(0.7)</b>

The results for the year, as reported under SORP 2015, include some volatile items over which the University can exert little direct control, and items that are not influenced by the day-to-day operation of the University. As set out in note 21, before actuarial gains and losses, the reported deficit for 2014/15 of £1.6 million compares with a surplus of £1.3 million previously reported in the 2014/15 statutory accounts. In 2015/16, the year end position which would have been reported under the previous UK GAAP reporting regime would have resulted in a surplus of £1.5 million rather than the reported deficit of £1.8 million.

The main items which contribute to the changes in the reported outturn position arising out of the implementation of SORP 2015 are a change in depreciation policy (to reflect better the individual components which make up the University's buildings) and the inclusion of changes in levels of pension liabilities in the Statements of Comprehensive Income & Expenditure rather than reflecting these changes through other gains and losses.

## STRATEGIC REPORT (continued)

The main changes in the underlying outturn position compared to 2014/15 were:-

- An increase of £0.2 million in income from tuition fees and education contracts and an increase of £0.1 million in grant income from the Scottish Funding Council;
- An increase of £0.3 million in other operating income, mainly due to increased income from student accommodation occupancy;
- A reduction of £0.5 million in staff costs, reflecting reduced restructuring costs and related staff turnover savings
- A reduction in interest payable of £0.6 million reflecting the full-year effect of refinancing of loan facilities.

QMU Enterprises Ltd generated a profit of £229,000 (2014/15: £213,000), which was passed to the University under deed of covenant. QMSS was a company limited by guarantee in which the University had a one-third interest. The company operated and maintained the University's on-campus student accommodation until 17 December 2014. On this date, the Directors of QMSS agreed that the company should go into voluntary administration. The University subsequently purchased the student accommodation from the administrator. The results of QMSS for the period to 17 December 2014 are fully consolidated in the financial statements and this is reflected in the comparative figures for 2014/15. The element of surplus or deficit attributable to the other two partners is shown as an adjustment in the Income and Expenditure Account.

### 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 £3.3 million on operating activities (2014/15, £4.1 million inflow). Expenditure on the student accommodation, along with the costs of servicing borrowings, led to a reduction in cash balances of £1.2 million (2014/15; reduction of £3.7 million). Cash balances at 31 July 2016 of £7.9 million (2015: £9.1 million) represented 87 days' expenditure (2015: 93 days). During the year an amount of £2.2 million was committed on works to upgrade the student accommodation following the transfer into the University's ownership in December 2014.

### 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 2016, based on a rolling five-year period, were as follows:-

Indicator	Target	Average
EBITDA	12%	13.6%
Net cash flow from operating activities less interest payable as a percentage of turnover	6%	6.8%

### 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
- 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 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 2016 amounted to £35.1 million, (31 July 2015, £36.5 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 2016. 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 2016.

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 inclusion of a liability for this deficit is a requirement of SORP 2015, and these are therefore the first set of accounts to include this liability. 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**

Our NSS results for 2016 confirm a clear upward trend in all areas of the National Student Survey over the past 6 years. QMU's overall satisfaction has increased by 1% to reach 86%, back to the same level as in 2014 and our highest since our first NSS results in 2011. This exceeds our benchmark of 84% set by HEFCE and matches both the Scottish and UK averages. Results for assessment and feedback were the most improved going from 67% to 70% which is above the Scottish average. Our high response rate of 73% indicates that these results are representative of the Level 4 experience.

## 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. Achievement of the objectives set out in the QMI50 strategic plan 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 timing of the UK's exit from the European Union remains uncertain, as does the likely impact on the University's operations and financial plans. The University has identified a number of elements which it will require to monitor as the Brexit negotiations develop. 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 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 continues on developing further new sources of income with a view to ensuring that the University achieves its objective of long-term sustainability.

### On behalf of the University Court

Dr Frances Dow, CBE  
Chair  
7 December 2016

## 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 2016, trade creditors represented 33 days of relevant expenditure (2015: 54 days). Interest paid under the Late Payment of Commercial Debts (Interest) Act 1998 was £nil (2014/15: £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 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	
Keir Bloomer, FRSE (Chair)	Appointed 12 March 2007 Retired 16 March 2016	3/3	Former Chief Executive, Clackmannanshire Council
Dr Frances Dow CBE (Chair)	Appointed 17 March 2016	2/2	Former Vice Principal, University of Edinburgh
The Honourable Mark Laing (Vice-Chair)	Appointed 1 October 2009 Retired 30 September 2016	5/5	Chairman, Nairn's Oatcakes Limited
Linda McPherson (Vice-Chair)	Appointed 1 October 2014	5/5	Former Senior Director - Food and Drink, Tourism & Textile, Scottish Enterprise
Carolyn Bell	Appointed 1 October 2016	0/0	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	0/0	Deputy Principal <i>Ex Officio</i>
Professor Graham Caie CBE	Appointed 1 December 2014	5/5	Former Chair, National Library of Scotland Governance Committee, Vice President of the Royal Society of Edinburgh
Ian Calder	Appointed 1 March 2011	4/5	Former Director, Grant Thornton LLP
Craig Cathcart	Appointed 8 February 2011 Retired 11 October 2016	4/5	Staff Member, Appointed by Senate
Colin Duffus	Appointed 1 June 2016	1/1	Elected Professional Services Staff Member
Professor Robert Cormack, FRSE	Appointed 1 September 2010 Retired 31 August 2016	3/5	Former Principal, UHI Millennium Institute
Dr Anthony Falconer, OBE	Appointed 1 October 2013	4/5	Retired Consultant Obstetrician and Gynaecologist. Former President Royal College of Obstetricians and Gynaecologists.
Professor Alan Gilloran	Appointed 1 January 2010 Retired 31 August 2016	5/5	Deputy Principal <i>Ex Officio</i>
Dr Anna Gregor, CBE	Appointed 1 November 2010 Retired 31 October 2016	4/5	Retired Associate Medical Director, NHS Lothian
Cynthia Guthrie	Appointed 1 December 2015	4/4	Joint Managing Director, Guthrie Group Limited
Dr Lindsay Irvine	Appointed 1 December 2013 Retired 30 November 2016	4/5	Elected Academic Staff member
Brian Leggat	Appointed 1 October 2009 Retired 30 September 2015	0/0	Retired Solicitor
Francis Lennon, OBE	Appointed 1 October 2016	0/0	Former Head Teacher
Jacqueline Macdonald	Appointed 1 October 2013	4/5	Partner, Small Green Spaces
Ken McGarrity	Appointed 1 October 2016	0/0	Former Finance Director, Nairn's Oatcakes
Miller McLean	Appointed 1 January 2011	5/5	Chairman, Adam & Co Group plc, Retired Group Secretary, Royal Bank of Scotland
Margaret O'Connor	Appointed 1 October 2014	5/5	Chief Executive, Art in Healthcare
Robert Rae	Appointed 1 March 2011	3/5	Former Chairman, Midlothian & East Lothian Chamber of Commerce
Megan Richardson	Appointed 10 June 2016	0/1	Student Vice-President
Adam Roe	Appointed 10 June 2015 Retired 9 June 2016	3/4	Student Vice-President
Judith Sischy, OBE	Appointed 1 September 2010 Retired 31 August 2016	5/5	Former Chief Executive, Scottish Council of Independent Schools
Heidi Vistisen	Appointed 10 June 2015	5/5	Student President
Laura Young	Appointed 1 October 2016	0/0	Founder of the Teapot Trust
Professor Petra Wend	Appointed 1 September 2009	5/5	Principal & Vice-Chancellor <i>Ex Officio</i>
Sheila Williams	Appointed 12 April 2013 Retired 12 April 2016	4/4	Elected Support Staff Member

## DIRECTORS' REPORT (continued)

### Membership of University Court Committees during the year to 31 July 2016

#### Audit and Risk Committee

Name		Attendance record
Miller McLean	Convener	4/4
Dr Anthony Falconer		3/4
Robert Rae		3/4
Judith Sischy		3/4

#### Finance & Estates Committee

Name		Attendance record
James Bradshaw	Convener	6/6
Ian Calder		5/6
Professor Alan Gilloran		6/6
Cynthia Guthrie	Appointed 2 December 2015	2/2
Brian Leggat	Retired 30 September 2015	0/1
Linda McPherson		6/6
Professor Petra Wend		6/6

#### Nominations Committee

Name		Attendance record
Keir Bloomer	Convener, Retired 16 March 2016	3/3
Dr Frances Dow	Convener, Appointed 17 March 2016	2/2
Craig Cathcart		4/5
Professor Robert Cormack		4/5
Dr Anthony Falconer	Appointed 6 April 2016	1/1
Mark Laing		5/5
Jacqueline Macdonald		4/5
Heidi Vistisen		5/5
Professor Petra Wend		4/5

#### Senior Management Remuneration Committee

Name		Attendance record
Mark Laing	Convener	1/1
Keir Bloomer		1/1
James Bradshaw		1/1
Dr Frances Dow		0/0
Brian Leggat	Retired 30 September 2015	0/1
Jacqueline Macdonald		0/0

#### 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  
7 December 2016

## 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 2016. 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: [www.qmu.ac.uk/court/publications/](http://www.qmu.ac.uk/court/publications/)

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 2016 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 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 Vice-Chancellor the organisation, management and discipline of the University. In discharging these functions, the 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 2015-16. 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 2015/16 included:

- Being an Effective Governor (Leadership Foundation for Higher Education, October 2015)
- Being an Effective Student Governor (Leadership Foundation for Higher Education, September 2015)
- Court Away Days (4 and 5 February 2016)

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 as required, as they affect the University's business, and monitors adherence to the regulatory requirements. It reviews the University's annual financial statements. Whilst senior executives attend meetings of the Audit and Risk Committee as necessary, they 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 Audit and Risk Committee. These matters are subsequently reported 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.

### **Higher Education Governance (Scotland) Act 2016**

During the year, the University Court followed closely the progress of the Higher Education Governance (Scotland) Bill, which was published originally in June 2015, along with a Policy Memorandum, Financial Memorandum, explanatory notes, and other associated documents. The University submitted a detailed response to the Call for Evidence in August 2015. The Higher Education Governance (Scotland) Act 2016 received Royal Assent on 13 April 2016 and, subject to parliamentary timescales, the Act is likely to be commenced during late 2016 or early 2017. The University Court has considered in detail the impact of the key provisions of the Act on its governance arrangements, including those concerning the election of the senior lay member of the governing body, and the composition and size of the University Court and the Senate. Revisions to the University's Statutory Instrument will be required and will be progressed during 2016-17.

## CORPORATE GOVERNANCE STATEMENT (continued)

### 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'. In support of this, the University Court undertook a comprehensive internal review of its practices, and in June 2014, it approved the statement that it was compliant with the Scottish Code, and that its KPI for Effectiveness of Court had been achieved. The University Court has continued to reflect on the effectiveness of its Governance arrangements in the period to July 2016, as set out below.

The University Court commissioned an externally-facilitated review of its effectiveness in 2015. The review was conducted by a Review Working Group, convened by the former Chair of Court, Keir Bloomer, and with membership drawn from the broad membership of the University Court. An external governance advisor facilitated the work of the Group and provided an independent assessment that formed part of the Group's final report. The Review Working Group conducted its work from February to October 2015, and provided an interim report to the University Court at its 7 October 2015 meeting. The final report was submitted to the University Court in December 2015, and debated in full at the Court away days in February 2016.

Having reviewed all of the evidence available to it, the overarching judgement of the Review Working Group was that the University Court has Effective arrangements in place to ensure that it meets its key obligations as set out in the University Court Statement of Primary Responsibilities. Examples of best practice in governance are in place, and a small number of areas for potential development and enhancement were identified and formed the basis of recommendations. An action plan to progress those recommendations accepted by the University Court was agreed at the April 2016 meeting of the University Court. Regular updates on progress will be received in the period to June 2017. The final review report and action plan have been published on the University website at: <http://www.qmu.ac.uk/court/publications/Default.htm>

Throughout 2015/16, 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.

### 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 and 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. 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  
7 December 2016

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

We have audited the financial statements of Queen Margaret University for the year ended 31 July 2016 which comprise the Consolidated and University Statement of Comprehensive Income and Expenditure, Statement of Changes in Reserves, Balance Sheets and the Consolidated Statement of Cash Flows in addition to the Statement of Principal Accounting Policies and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

### **Respective Responsibilities of the University Court and Auditor**

As explained more fully in the Responsibilities of the University Court, as set out on page 14, the University Court (whose members are trustees for the purpose of charity law and are also the directors of the University for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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 responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, regulations and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the Audit of the Financial Statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group and University's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on Financial Statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Group and Charitable Company's affairs as at 31 July 2016 and of the deficit of the Group's and the University's incoming resources and application of resources, including its income and expenditure 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 Republic of Ireland" and with the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education; and
- have been prepared in accordance with the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

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

### Opinion on other matter prescribed by the Companies Act 2006

- In our opinion 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.

### Opinion on other matters prescribed by applicable regulations

In our opinion:

- 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.

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

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

- the University parent company has not kept proper and adequate accounting records 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.

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

Ernst & Young LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

Notes:

1. The maintenance and integrity of Queen Margaret University's web site is the responsibility of the trustees; 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 preparing its consolidated financial statements in accordance with FRS 102 for the first time and consequently has applied the first-time adoption requirements. The transition date is 1 August 2014. An explanation of how the transition to SORP 2015 has affected the reported financial position and financial performance of the consolidated results of the University is provided in note 21.

The changes to accounting policies which have had the greatest effect on the reported figures included in the financial statements are as follows:-

- the inclusion of items previously excluded from the Income and Expenditure Account, including the full liability for the Group's share of the deficit in Lothian Pension Fund and endowment and donations income and expenditure;
- enhanced depreciation charges (and associated release from deferred government capital grants) arising from the introduction of component accounting when determining economic lives of University owned buildings; and
- the inclusion of provision for new liabilities in respect of the USS deficit recovery plan and untaken annual leave.

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. 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 2016. Details of QMU Enterprises are given in note 13. The statements also include, in the comparative figures for 2014/15, the results of the special purpose vehicle, QMSS, up to 17 December 2014, the date on which that company went into voluntary administration. 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.

## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

### (C) Recognition of income (continued)

#### 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.

### (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. 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.

#### Universities' Superannuation Scheme

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 and therefore, as required by FRS 102, 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.

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 2016

	Note	2015/16		2014/15	
		£000 Consolidated	£000 University	£000 Consolidated	£000 University
<b>INCOME</b>					
Tuition fees and education contracts	1	12,738	12,738	12,580	12,580
Scottish Funding Council grants	2	15,313	15,313	15,174	15,174
Research grants and contracts	3	1,759	1,735	2,081	1,902
Other income	4	6,593	6,172	8,718	8,628
Investment income	5	29	28	92	51
Donations and endowments	6	188	188	263	263
<b>Total income</b>		<b>36,620</b>	<b>36,174</b>	<b>38,908</b>	<b>38,598</b>
<b>EXPENDITURE</b>					
Staff costs	7	21,884	21,808	22,588	22,486
Other operating expenses	11	10,158	9,788	9,323	9,535
Depreciation	12	4,787	4,787	4,685	4,685
Impairment of fixed asset		-	-	5,679	-
Interest and other finance costs	8	1,618	1,618	2,254	1,399
<b>Total expenditure</b>		<b>38,447</b>	<b>38,001</b>	<b>44,529</b>	<b>38,105</b>
(Deficit) / surplus before share of operating surplus of joint venture		(1,827)	(1,827)	(5,621)	493
Share of operating surplus in joint venture		-	-	4,076	-
(Deficit) / surplus before tax		(1,827)	(1,827)	(1,545)	493
Taxation	10	-	-	-	-
<b>(Deficit) / surplus for the year</b>		<b>(1,827)</b>	<b>(1,827)</b>	<b>(1,545)</b>	<b>493</b>
Actuarial (loss)/gain in respect of pension schemes		(1,476)	(1,476)	869	869
<b>Total comprehensive income for the year</b>		<b>(3,303)</b>	<b>(3,303)</b>	<b>(676)</b>	<b>1,362</b>

### Represented by:-

Endowment comprehensive income for the year	19	19	130	130
Unrestricted comprehensive income for the year	(3,186)	(3,186)	(670)	1,368
Revaluation reserve comprehensive income for the year	(136)	(136)	(136)	(136)
	<b>(3,303)</b>	<b>(3,303)</b>	<b>(676)</b>	<b>1,362</b>

All items of income and expenditure relate to continuing activities.

## STATEMENTS OF CHANGES IN RESERVES

For the Year Ended 31 July 2016

**Consolidated**  
£000s

	Income & Expenditure Account		Revaluation reserve	Total
	Endowments	Unrestricted		
<b>Balance at 1 August 2014</b>	<b>330</b>	<b>12,221</b>	<b>7,671</b>	<b>20,222</b>
Surplus/ (deficit) from the income & expenditure statement	130	(806)	-	(676)
Transfer between revaluation and income & expenditure reserves	-	136	(136)	-
	<b>130</b>	<b>(670)</b>	<b>(136)</b>	<b>(676)</b>
Deconsolidation of QMSS	-	10,834	-	10,834
<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 and 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 31 July 2016</b>	<b>479</b>	<b>19,199</b>	<b>7,399</b>	<b>27,077</b>

**University**  
£000s

	Income & Expenditure Account		Revaluation reserve	Total
	Endowments	Unrestricted		
<b>Balance at 1 August 2014</b>	<b>330</b>	<b>21,017</b>	<b>7,671</b>	<b>29,018</b>
Surplus/ (deficit) from the income & expenditure statement	130	1,232	-	1,362
Transfer between revaluation and income & expenditure reserves	-	136	(136)	-
	<b>130</b>	<b>1,368</b>	<b>(136)</b>	<b>1,362</b>
<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 and 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 31 July 2016</b>	<b>479</b>	<b>19,199</b>	<b>7,399</b>	<b>27,077</b>

## BALANCE SHEETS AS AT 31 JULY 2016

	Note	Consolidated		University	
		2016 £000	2015 £000	2016 £000	2015 £000
<b>FIXED ASSETS</b>					
Tangible assets	12	86,170	88,567	86,170	88,567
Investments	13	-	-	-	-
		<u>86,170</u>	<u>88,567</u>	<u>86,170</u>	<u>88,567</u>
<b>CURRENT ASSETS</b>					
Trade and other receivables	14	1,622	1,681	2,185	2,079
Current asset investments		141	154	141	154
Cash at bank and in hand		7,936	9,144	7,198	8,498
		<u>9,699</u>	<u>10,979</u>	<u>9,524</u>	<u>10,731</u>
CREDITORS: amounts falling due within one year	15	(8,248)	(9,087)	(8,073)	(8,839)
		<u>1,451</u>	<u>1,892</u>	<u>1,451</u>	<u>1,892</u>
<b>NET CURRENT ASSETS / (LIABILITIES)</b>					
TOTAL ASSETS LESS CURRENT LIABILITIES		87,621	90,459	87,621	90,459
CREDITORS :amounts falling due after more than one year	16	(43,353)	(45,373)	(43,353)	(45,373)
PROVISIONS FOR LIABILITIES AND CHARGES	17	(17,191)	(14,706)	(17,191)	(14,706)
<b>NET ASSETS</b>		<u><b>27,077</b></u>	<u><b>30,380</b></u>	<u><b>27,077</b></u>	<u><b>30,380</b></u>
<b>RESTRICTED RESERVES</b>					
Income & expenditure reserve – endowment reserve	18	479	460	479	460
<b>UNRESTRICTED RESERVES</b>					
Income & expenditure reserve – unrestricted		19,199	22,385	19,199	22,385
Revaluation reserve	19	7,399	7,535	7,399	7,535
<b>TOTAL RESERVES</b>		<u><b>27,077</b></u>	<u><b>30,380</b></u>	<u><b>27,077</b></u>	<u><b>30,380</b></u>

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

The financial statements on pages 18 to 45 were approved by the University Court on 7 December 2016 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 2016

	Note	2015/16 £000	2014/15 £000
<b>Cash inflow from operating activities</b>			
Surplus / (deficit) for the year		(1,827)	(5,621)
<b>Adjustments for non-cash items</b>			
Depreciation	12	4,787	4,685
Impairment adjustment		-	5,679
Deferred capital grants released	16	(528)	(595)
Deferred income released		-	(2,450)
Pension costs less contributions payable		1,135	950
(Increase) / decrease in operating debtors		59	219
Increase / (decrease) in operating creditors		(1,373)	(720)
Increase / (decrease) in pension provision		(125)	192
<b>Adjustments for investing or financing activities</b>			
Investment income and interest receivable		(47)	(502)
Interest payable		1,215	2,253
<b>Net cash inflow / (outflow) from operating activities</b>		<b>3,296</b>	<b>4,090</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of endowment assets		64	34
Investment income		28	73
Payments made to acquire fixed assets		(1,834)	(26,731)
Payments made to acquire endowment assets		(55)	(37)
QMSS cash paid to Lloyds on entering administration		-	(2,293)
		<b>(1,797)</b>	<b>(28,954)</b>
<b>Cash flows from financing activities</b>			
Interest paid		(1,215)	(1,812)
New secured loans		-	24,496
Repayments of amounts borrowed		(1,492)	(1,564)
		<b>(2,707)</b>	<b>21,120</b>
<b>Increase / (decrease) in cash and cash equivalents in the year</b>		<b>(1,208)</b>	<b>(3,744)</b>
Cash and cash equivalents at beginning of the year		9,144	12,888
Cash and cash equivalents at end of the year		7,936	9,144
		<b>(1,208)</b>	<b>(3,744)</b>



## NOTES TO THE FINANCIAL STATEMENTS

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

	2015/16	2014/15
	£000	£000
Scottish higher education students	5,085	5,450
Rest of UK students	1,451	1,300
European Union (excluding UK) students	2,048	1,770
Non-European Union students	2,677	2,609
Other fees	32	210
Education contracts	1,445	1,241
	<b>12,738</b>	<b>12,580</b>

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

	2015/16	2014/15
	£000	£000
Recurrent grant		
Teaching	12,296	12,159
Research	765	606
Specific grants		
Wider access retention premium	586	586
Regional Coherence - Academies programme	312	312
Disabled student premium	53	52
Knowledge exchange	334	331
Scottish Drama Training Network	148	150
Capital maintenance grant released	309	390
Other miscellaneous grants	54	69
Deferred capital grants released (note 16)		
Land & buildings	456	481
Equipment	-	38
	<b>15,313</b>	<b>15,174</b>

### 3. RESEARCH GRANTS & CONTRACTS

	Consolidated		University	
	2015/16	2014/15	2015/16	2014/15
	£000	£000	£000	£000
Research councils	93	197	93	197
UK based charities	322	295	322	295
UK government and health authorities	1,139	1,324	1,115	1,145
UK private sector	11	198	11	198
European funding	-	-	-	-
Other grants & contracts	194	67	194	67
	<b>1,759</b>	<b>2,081</b>	<b>1,735</b>	<b>1,902</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 4. OTHER OPERATING INCOME

	Consolidated		University	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Residences, catering and conferences	4,609	4,538	4,335	4,448
Other services rendered	1,024	1,090	877	1,090
Sports centre income	236	224	236	224
Released from deferred capital grants (note 16)	72	76	72	76
Exceptional release from deferred income	-	2,450	-	2,450
Other income	652	340	652	340
	<b>6,593</b>	<b>8,718</b>	<b>6,172</b>	<b>8,628</b>

### 5. INVESTMENT INCOME

	Consolidated		University	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Investment income on endowments	1	-	-	-
Other investment income	28	92	28	51
Net return on pension scheme	-	-	-	-
	<b>29</b>	<b>92</b>	<b>28</b>	<b>51</b>

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

	2015/16 £000	2014/15 £000
New endowments	-	-
Unrestricted donations	188	263
	<b>188</b>	<b>263</b>

### 7. STAFF COSTS

	Consolidated		University	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Staff costs				
Wages and salaries	16,890	17,597	16,814	17,495
Social security costs	1,450	1,280	1,450	1,280
Movement on USS provision	5	171	5	171
Other pension costs	3,539	3,540	3,539	3,540
	<b>21,884</b>	<b>22,588</b>	<b>21,808</b>	<b>22,486</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)

	2015/16 £000	2014/15 £000
Professor Petra Wend	-	-
Salary	202	197
Pension contributions	34	29
Benefits in kind	2	2
	<b>238</b>	<b>228</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. The nature of the scheme means that it is not possible to ascertain the amount of her accrued pension at the year end.

### 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 2016 (including any employers' pension contributions) was £902,000 (year ended 31 July 2015, £852,000).

### 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.

	2015/16 £000	2014/15 £000
Directors' emoluments (including pension contributions)		
Fees for services as members of University Court	-	-
Emoluments (i.e. salaries as members of staff)	478	471
Contributions paid to pension schemes	81	70
Benefits in kind	4	4
	<b>563</b>	<b>545</b>

These figures relate to six members of staff (2014/15: 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:-

	2015/16 Number	2014/15 Number
<b>Senior postholders</b>		
£100,001 to £110,000	-	-
£110,001 to £120,000	-	-
£120,001 to £130,000	1	1
£190,001 to £200,000	-	1
£200,001 to £210,000	1	-
	2015/16 £000	2014/15 £000
<b>Compensation for loss of office</b>		
Compensation payable in respect of senior postholders	-	-

	2015/16 FTE number	2014/15 FTE number
Average full time equivalent staff numbers by major category: <i>(consolidated and university)</i>		
Academic schools	190	195
Academic services	50	57
Research grants & contracts	31	30
Residences, catering & conferences	29	23
Premises	24	22
Administration & central services	111	115
	<b>435</b>	<b>442</b>

### 8. INTEREST PAYABLE AND OTHER FINANCE COSTS

	Consolidated		University	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Loan interest	1,215	1,809	1,215	954
Finance lease interest	-	3	-	3
Net charge on pension scheme	403	442	403	442
	<b>1,618</b>	<b>2,254</b>	<b>1,618</b>	<b>1,399</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 9. ANALYSIS OF TOTAL EXPENDITURE BY ACTIVITY

	Consolidated		University	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Academic schools	12,373	12,807	12,373	12,807
Academic services	4,820	4,064	4,823	4,064
Research grants & contracts	1,390	1,320	1,390	1,320
Other services rendered	1,167	1,258	944	934
Residences, catering and conferences	4,664	3,418	4,441	3,095
Premises	6,550	4,083	6,550	4,083
Administration & central services	6,236	6,262	6,236	6,262
Other expenses	1,247	5,638	1,244	5,540
Impairment of fixed asset	-	5,679	-	-
<b>Total per income and expenditure account</b>	<b>38,447</b>	<b>44,529</b>	<b>38,001</b>	<b>38,105</b>

### 10. TAXATION (consolidated and university)

	2015/16 £000	2014/15 £000
UK Corporation Tax payable	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

### 11. OTHER OPERATING EXPENSES

	Consolidated		University	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
External audit	40	40	32	32
Internal audit	37	33	37	33
Grants to QMU Students Union	240	235	240	235
Other expenses	9,841	9,015	9,479	9,235
	<u>10,158</u>	<u>9,323</u>	<u>9,788</u>	<u>9,535</u>
	<u>10,158</u>	<u>9,323</u>	<u>9,788</u>	<u>9,535</u>

## 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 2015	94,073	7,817	1,166	103,056
Disposals at cost	-	-	-	-
Additions at cost	2,216	69	105	2,390
At 31 July 2016	<u>96,289</u>	<u>7,886</u>	<u>1,271</u>	<u>105,446</u>
<b>Depreciation:</b>				
At 1 August 2015	5,742	7,581	1,166	14,489
Written off on disposals	-	-	-	-
Provided during the year	4,605	156	26	4,787
At 31 July 2016	<u>10,347</u>	<u>7,737</u>	<u>1,192</u>	<u>19,276</u>
<b>Net book amount at 31 July 2016</b>	<b><u>85,942</u></b>	<b><u>149</u></b>	<b><u>79</u></b>	<b><u>86,170</u></b>
Net book amount at 1 August 2015	<u>88,331</u>	<u>236</u>	<u>-</u>	<u>88,567</u>
<b>Analysis of net book amount at 31 July 2016</b>				
Financed by capital grant	9,791	-	-	9,791
Other	76,151	149	79	76,379
	<u>85,942</u>	<u>149</u>	<u>79</u>	<u>86,170</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 2015 and 31 July 2016
			%	£
<b>QMU Enterprises Ltd</b>	Scotland	Ordinary £1 shares	100	100
				<u>100</u>

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	
	2016 £000	2015 £000	2016 £000	2015 £000
Amounts falling due within one year:				
Trade debtors	540	707	513	615
Prepayments and accrued income	1,082	974	1,081	943
Amounts due from subsidiaries	-	-	591	521
	<u>1,622</u>	<u>1,681</u>	<u>2,185</u>	<u>2,079</u>

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

	Consolidated		University	
	2016 £000	2015 £000	2016 £000	2015 £000
Secured loans (see note 16)	1,492	1,492	1,492	1,492
Trade creditors	861	1,773	861	1,773
Social security and other taxation payable	482	454	458	366
Accruals and deferred income	5,329	5,353	5,178	5,194
Finance lease commitments due within one year	84	15	84	14
	<u>8,248</u>	<u>9,087</u>	<u>8,073</u>	<u>8,839</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	Consolidated		University	
	2016 £000	2015 £000	2016 £000	2015 £000
Secured loan	33,562	35,054	33,562	35,054
Deferred capital grants	9,791	10,319	9,791	10,319
	<b>43,353</b>	<b>45,373</b>	<b>43,353</b>	<b>45,373</b>
Analysis of secured loans:-				
Due between one and two years	1,492	1,492	1,492	1,492
Due between two and five years	4,475	4,475	4,475	4,475
Due in five years or more	27,595	29,087	27,595	29,087
Total due after more than one year	33,562	35,054	33,562	35,054
Due within one year (note 15)	1,492	1,492	1,492	1,492
Total secured loans	35,054	36,546	35,054	36,546

The secured long-term facility with Barclays Bank plc is £35.0 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

	Consolidated and University	
	2016 £000	2015 £000
Opening balance : buildings	10,319	10,876
Opening balance : equipment	-	38
	10,319	10,914
Receivable : buildings	-	-
Receivable : equipment	-	-
	-	-
Release : buildings	528	557
Release : equipment	-	38
	528	595
Closing balance : buildings	9,791	10,319
Closing balance : equipment	-	-
	<b>9,791</b>	<b>10,319</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 2015	363	3,522	10,821	<b>14,706</b>
Utilised in year	(118)	(242)	-	<b>(360)</b>
Transfer from income & expenditure account	123	115	2,607	<b>2,845</b>
<b>At 31 July 2016</b>	<b>368</b>	<b>3,395</b>	<b>13,428</b>	<b>17,191</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 2016, 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

	<b>Unrestricted</b> £000	<b>Consolidated and University</b>			<b>Total</b> £000
		<b>Restricted Expendable</b> £000	<b>Restricted Permanent</b> £000	<b>Restricted Total</b> £000	
<b>Balance at 1 August 2015</b>	-	414	46	460	460
Appreciation of endowment asset investments	-	9	-	(9)	(9)
Income for year	-	198	-	198	198
Expenditure for year	-	(170)	-	(170)	(170)
<b>At 31 July 2016</b>	<b>-</b>	<b>433</b>	<b>46</b>	<b>479</b>	<b>479</b>
Represented by:					
Capital value	-	-	43	43	43
Accumulated income	-	433	3	436	436
	-	433	46	479	479

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 19. REVALUATION RESERVE

	Consolidated		University	
	2016 £000	2015 £000	2016 £000	2015 £000
At 1 August	7,535	7,671	7,535	7,671
Revaluation of land and buildings	-	-	-	-
Release to general reserve	(136)	(136)	(136)	(136)
At 31 July	<b>7,399</b>	<b>7,535</b>	<b>7,399</b>	<b>7,535</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 £3,539,000 (2014/15: £3,388,000).

The total pension charge is analysed as follows:-

Lothian Pension Fund (LGPS)  
Scottish Teachers Superannuation Scheme  
Universities Superannuation Scheme

#### Consolidated and University

	Year ended 31 July 2016 £000	Year ended 31 July 2015 £000
	1,933	2,156
	1,420	1,203
	186	181
	<b>3,539</b>	<b>3,540</b>

Estimated employers' pension contributions for the year to 31 July 2017 are £2,841,000.

#### 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 2016 by a qualified independent actuary, Hyman Robertson LLP.

Assumptions at	31 July 2016	31 July 2015	31 July 2014
Pension increase rate	1.9%	2.6%	2.7%
Salary increase rate	4.4%	4.5%	5.0%
Expected return on assets	2.4%	3.6%	6.0%
Discount rate	2.4%	3.6%	4.0%

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)

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:-

	<b>31 July 2016</b>	<b>31 July 2015</b>
	<b>No. of years</b>	<b>No. of years</b>
<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

	<b>Value at 31 July 2016 £000</b>	<b>Value at 31 July 2015 £000</b>	<b>Value at 31 July 2014 £000</b>	<b>Value at 31 July 2013 £000</b>	<b>Value at 31 July 2012 £000</b>
<b>Estimated employer assets (A)</b>	50,644	40,901	36,535	33,477	27,454
Present value of scheme liabilities	(63,303)	(50,918)	(46,362)	(38,740)	(35,505)
Present value of unfunded liabilities	(769)	(804)	(776)	(753)	(776)
<b>Total value of liabilities (B)</b>	<b>(64,072)</b>	<b>(51,722)</b>	<b>(47,138)</b>	<b>(39,493)</b>	<b>(36,281)</b>
<b>Net pension liability (A) – (B)</b>	<b>(13,428)</b>	<b>(10,821)</b>	<b>(10,603)</b>	<b>(6,016)</b>	<b>(8,827)</b>

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

	<b>31 July 2016 £000</b>	<b>31 July 2015 £000</b>
<b>Opening defined benefit obligation</b>	<b>51,722</b>	<b>47,138</b>
Current service cost	2,012	1,879
Interest cost	1,885	1,908
Contributions by members	420	428
Actuarial losses	9,156	1,459
Past service costs	47	-
Unfunded benefits paid	(51)	(54)
Benefits paid	(1,119)	(1,036)
<b>Closing defined benefit obligation</b>	<b>64,072</b>	<b>51,722</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	31 July 2016	31 July 2015
	£000	£000
<b>Opening fair value of employer assets</b>	<b>40,901</b>	<b>36,535</b>
Expected return on assets	7,680	2,328
Contributions by members	420	428
Contributions by employer	1,279	1,174
Contributions in respect of unfunded benefits	51	54
Actuarial (losses)/gains	1,483	1,472
Unfunded benefits paid	(51)	(54)
Benefits paid	(1,119)	(1,036)
<b>Closing fair value of employer assets</b>	<b>50,644</b>	<b>40,901</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.

### C ) Universities Superannuation Scheme (USS)

The University participates in the Universities Superannuation Scheme (the scheme). Throughout the current and preceding periods, 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 £181,000 (2015: £180,000) 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. 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. Defined benefit liability numbers for the scheme have been produced using the following assumptions:-

## NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	2016	2015
Discount rate	3.6%	3.3%
Pensionable salary growth.	N/A	3.5% in the first year and 4.0% thereafter
Price inflation (CPI)	2.2%	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:

	2016	2015
Males currently aged 65 (years)	24.3	24.2
Females currently aged 65 (years)	26.5	26.4
Males currently aged 45 (years)	26.4	26.3
Females currently aged 45 (years)	28.8	28.7

Existing benefits	2016	2015
Scheme assets	£49.8 billion	£49.1 billion
Total scheme liabilities	£58.3 billion	£60.2 billion
FRS 102 total scheme deficit	£8.5 billion	£11.1 billion
FRS17 funding level	85%	82%

### 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 2016, on the basis of valuation prescribed by FRS 102. The total provision in respect of this liability is £3.395 million (2015: £3.522 million).

### 21. TRANSITION TO FRS 102

As explained in the accounting policies, these are the University's first financial statements prepared in accordance with FRS 102 and SORP 2015. The accounting policies set out above have been applied in preparing the financial statements for the year ended 31 July 2016, the comparative information presented in these financial statements for the year ended 31 July 2015 and in the preparation of the opening FRS 102 Statement of Financial Position as at 1 August 2014. In preparing its FRS 102, SORP 2015-based Statement of Financial Position, the University has adjusted amounts reported previously in financial statements prepared in accordance with the previous basis of accounting (SORP 2007). An explanation of how the transition to FRS 102 and SORP 2015 has affected the University's reported financial position, financial performance and cash flows is set out in the following tables.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Statement of financial position

£000s

	1 August 2014		31 July 2015	
	Consolidated	University	Consolidated	University
<b>Total reserves under SORP 2007</b>	<b>30,389</b>	<b>39,185</b>	<b>42,516</b>	<b>42,516</b>
Release of non-government deferred capital grants	2,103	2,103	2,395	2,395
Provision for USS deficit	(187)	(187)	(363)	(363)
Annual leave accrual	(468)	(468)	(503)	(503)
Recognition of grants	1,402	1,402	1,402	1,402
Increased depreciation charge	-	-	(2,353)	(2,353)
Reclassification of deferred capital grants	(13,017)	(13,017)	(12,714)	(12,714)
Total effect of transition to FRS 102	(10,167)	(10,167)	(12,136)	(12,136)
<b>Total reserves under FRS 102</b>	<b>20,222</b>	<b>29,018</b>	<b>30,380</b>	<b>30,380</b>

### Financial performance

£000s

	Year ended 31 July 2015	
	Consolidated	University
<b>Surplus for the year under SORP 2007</b>	<b>1,332</b>	<b>3,370</b>
Release of non-government deferred capital grants	292	292
Provision for USS deficit	(176)	(176)
Annual leave accrual	(35)	(35)
Increased depreciation charge	(2,353)	(2,353)
Actuarial pension valuation	134	134
Endowments	19	19
Donations	111	111
Total effect of transition to FRS 102	(2,008)	(2,008)
<b>Total Comprehensive Income for the year under FRS 102</b>	<b>(676)</b>	<b>1,362</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Consolidated balance sheet

£000s		1 August 2014			31 July 2015		
	Notes	SORP 2007	Effect of transition	FRS 102	SORP 2007	Effect of transition	FRS 102
<b>Non-current assets</b>							
Fixed assets	1	95,531	-	95,531	90,920	(2,353)	88,567
Investments		-	-	-	-	-	-
<b>Total non-current assets</b>		<b>95,531</b>	<b>-</b>	<b>95,531</b>	<b>90,920</b>	<b>(2,353)</b>	<b>88,567</b>
Endowment assets	2	330	(330)	-	460	(460)	-
<b>Current assets</b>							
Trade and other receivables		1,900	-	1,900	1,681	-	1,681
Investments	2	-	132	132	-	154	154
Cash and cash equivalents	2	12,824	64	12,888	9,083	61	9,144
<b>Total current assets</b>		<b>14,724</b>	<b>196</b>	<b>14,920</b>	<b>10,764</b>	<b>215</b>	<b>10,979</b>
Less creditors : amounts falling due within one year	2,3	(52,313)	1,068	(51,245)	(10,231)	1,144	(9,087)
<b>Net current assets/ (liabilities)</b>		<b>(37,589)</b>	<b>1,264</b>	<b>(36,325)</b>	<b>533</b>	<b>1,359</b>	<b>1,892</b>
<b>Total assets less current liabilities</b>		<b>58,272</b>	<b>934</b>	<b>59,206</b>	<b>91,913</b>	<b>(1,454)</b>	<b>90,459</b>
Creditors : amounts falling due after more than one year	4	(13,779)	(10,914)	(24,693)	(35,054)	(10,319)	(45,373)
<b>Provisions</b>							
Pensions provision	5	(3,501)	(10,790)	(14,291)	(3,522)	(11,184)	(14,706)
Other provisions		-	-	-	-	-	-
<b>Total provisions</b>		<b>(3,501)</b>	<b>(10,790)</b>	<b>(14,291)</b>	<b>(3,522)</b>	<b>(363)</b>	<b>(14,706)</b>
Net pension liability		(10,603)	10,603	-	(10,821)	10,821	-
<b>TOTAL NET ASSETS</b>		<b>30,389</b>	<b>(10,167)</b>	<b>20,222</b>	<b>42,516</b>	<b>(12,136)</b>	<b>30,380</b>
Deferred capital grants	4	13,017	(13,017)	-	12,714	(12,714)	-
Expendable endowment funds		330	(330)	-	460	(460)	-
<b>Restricted reserves</b>							
Income & expenditure reserve – endowment reserve	6	-	330	330	-	460	460
<b>Unrestricted reserves</b>							
Income & expenditure reserve – unrestricted	6	25,838	(7,753)	18,085	32,628	(10,243)	22,385
Revaluation reserve		7,671	-	7,671	7,535	-	7,535
Pension reserve		(10,603)	10,603	-	(10,821)	10,821	-
Non-controlling interest		(5,864)	-	(5,864)	-	-	-
<b>TOTAL RESERVES</b>		<b>30,389</b>	<b>(10,167)</b>	<b>20,222</b>	<b>42,516</b>	<b>(12,136)</b>	<b>30,380</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Notes to the Consolidated and University balance sheet transition statement

1. Fixed assets include the main campus buildings at valuation at 1st August 2014 and the student accommodation buildings at cost. The total value of the buildings has now been split into component elements. The useful economic lives of three component elements (substructure and superstructure; internal and external finishes and services) have been reviewed and assessed at 50, 10 and 10 years respectively. The resultant depreciation charge is higher than that calculated on the previous basis where useful economic lives varied from 29 to 50 years.
2. In accordance with FRS 102 the assets of endowment funds are now recognised as part of the underlying asset/ liability type and have been reallocated between short term investments, cash and creditors.
3. In accordance with FRS 102 an accrual for untaken staff leave at the balance sheet dates has been included at £303,000 at 31 July 2015 (1 August 2014; £268,000). This increased liability has been partly offset by releasing previously deferred government grants as all of the performance related conditions pertaining to their original award have been met.
4. In accordance with FRS 102, the total of capital grants received from government bodies can no longer be classified under reserves and balances of £10,914,000 have been transferred to creditors falling due after more than one year. This reflects the release of these government capital grants over the life of the underlying asset. The total value of deferred capital grants under SORP 2007 of £13,017,000 included £2,103,000 relating to non governmental capital grants which have been released to reserves and have not been transferred to creditors.
5. Provision has been made for the estimated cost of the deficit recovery plan for the Universities Superannuation Scheme (USS), of £187,000 at 1 August 2014, rising to £363,000 at 31st July 2015.
6. These adjustments reflect the impact on reserves of the above adjustments.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Consolidated statement of comprehensive income and expenditure Year ended 31 July 2015

£000s	Notes	SORP 2007	STRGL items	Transition to FRS 102	FRS 102
<b>INCOME</b>					
Tuition fees and education contracts		12,580	-	-	12,580
Scottish Funding Council grants	1	14,885	-	289	15,174
Research grants and contracts		2,081	-	-	2,081
Other income	1	8,715	-	3	8,718
Investment income	2	372	(280)	-	92
Donations and endowments	3	-	263	-	263
<b>Total income</b>		<b>38,633</b>	<b>(17)</b>	<b>292</b>	<b>38,908</b>
<b>EXPENDITURE</b>					
Staff costs	4	22,231	151	206	22,588
Other operating expenses		9,323	-	-	9,323
Depreciation	5	2,332	-	2,353	4,685
Impairment of fixed asset		5,679	-	-	5,679
Interest and other finance costs	3,6	1,812	437	5	2,254
<b>Total expenditure</b>		<b>41,377</b>	<b>588</b>	<b>2,564</b>	<b>44,529</b>
Surplus / (deficit) before share of operating surplus of joint venture		(2,744)	(605)	(2,272)	(5,621)
Share of operating surplus in joint venture		4,076	-	-	4,076
Surplus / (deficit) before tax		1,332	(605)	(2,272)	(1,545)
Taxation		-	-	-	-
Surplus for the year		1,332	(605)	(2,272)	(1,545)
Actuarial (loss)/gain in respect of pension schemes	2	-	869	-	869
<b>Total comprehensive income for the year</b>		<b>1,332</b>	<b>264</b>	<b>(2,272)</b>	<b>(676)</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Notes to Consolidated and University statement of comprehensive income & expenditure statement

1. As outlined in note 1 of the Notes to the consolidated and University balance sheet transition, the revisions to useful economic lives of elements of the main campus and student accommodation buildings has resulted in the application of an increased depreciation charge. Government grants previously provided to fund capital works are released in line with the depreciation policy applied. This adjustment reflects the related additional release required under FRS 102. £289,000 is shown under SFC income, and £3,000 is shown under other income.
2. Under SORP 2007, the appreciation of endowment asset investments of £19,000 was included in the statement of total recognised gains and losses (STRGL) rather than the income and expenditure account. Under FRS 102, such gains and losses require to be shown through the comprehensive income and expenditure account. Similarly the actuarial gain in respect of the local government pension scheme was previously disclosed in the STRGL. Under FRS 102 the entries relating to these valuations are spread throughout the comprehensive income and expenditure statement: £280,000 reduction in investment income, £437,000 in interest and other finance costs and £869,000 under actuarial gain in respect of pension schemes.
3. Under SORP 2007, net income from specific endowments was shown in the STRGL. Under FRS 102 the gross income and expenditure is shown in the comprehensive income and expenditure account. Income is therefore shown as £263,000.
4. Staff costs have increased due to the following:
  - a a movement in the annual leave accrual of £35,000;
  - b movements relating to the USS deficit provision of £171,000 and
  - c expenditure in respect of donations of £151,000, previously reflected in the STRGL
5. The economic lives elements of the campus and student accommodation buildings have been revised within the various components of these assets. An additional depreciation charge of £2,353,000 is therefore required.
6. Interest costs have been increased by £5,000, to reflect increased USS deficit provision. The balance of £437,000 relates to the inclusion of the actuarial valuation in respect of the local government pension scheme. (Note 2 above refers)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### University balance sheet

£000s		1 August 2014			31 July 2015		
	Notes	SORP 2007	Effect of transition	FRS 102	SORP 2007	Effect of transition	FRS 102
<b>Non-current assets</b>							
Fixed assets		66,503	-	66,503	90,920	(2,353)	88,567
Investments		-	-	-	-	-	-
<b>Total non-current assets</b>		<b>66,503</b>	<b>-</b>	<b>66,503</b>	<b>90,920</b>	<b>(2,353)</b>	<b>88,567</b>
Endowment assets	2	330	(330)	-	460	(460)	-
<b>Current assets</b>							
Trade and other receivables		2,298	-	2,298	1,681	-	1,681
Investments	2	-	132	132	-	154	154
Cash and cash equivalents	2	10,195	64	10,259	9,083	61	9,144
<b>Total current assets</b>		<b>12,493</b>	<b>196</b>	<b>12,689</b>	<b>10,764</b>	<b>215</b>	<b>10,979</b>
Less creditors : amounts falling due within one year	2,3	(9,895)	1,068	(8,827)	(10,231)	1,144	(9,087)
<b>Net current assets/ (liabilities)</b>		<b>2,598</b>	<b>1,264</b>	<b>3,862</b>	<b>533</b>	<b>1,359</b>	<b>1,892</b>
<b>Total assets less current liabilities</b>		<b>69,431</b>	<b>934</b>	<b>70,365</b>	<b>91,913</b>	<b>(1,454)</b>	<b>90,459</b>
Creditors : amounts falling due after more than one year	4	(16,142)	(10,914)	(27,056)	(35,054)	(10,319)	(45,373)
<b>Provisions</b>							
Pensions provision	5	(3,501)	(187)	(3,688)	(3,522)	(363)	(3,885)
Other provisions		-	-	-	-	-	-
<b>Total provisions</b>		<b>(3,501)</b>	<b>(187)</b>	<b>(3,688)</b>	<b>(3,522)</b>	<b>(363)</b>	<b>(3,885)</b>
Net pension liability		(10,603)	-	(10,603)	(10,821)	-	(10,821)
<b>TOTAL NET ASSETS</b>		<b>39,185</b>	<b>(10,167)</b>	<b>29,018</b>	<b>42,516</b>	<b>(12,136)</b>	<b>30,380</b>
Deferred capital grants	4	13,017	(13,017)	-	12,714	(12,714)	-
<b>Restricted reserves</b>							
Income & expenditure reserve – endowment reserve	6	330	-	330	460	-	460
<b>Unrestricted reserves</b>							
Income & expenditure reserve – unrestricted	6	28,770	(7,753)	21,017	32,628	(10,243)	22,385
Revaluation reserve	6	7,671	-	7,671	7,535	-	7,535
Pension reserve	6	(10,603)	10,603	-	(10,821)	10,821	-
<b>TOTAL RESERVES</b>		<b>39,185</b>	<b>(10,167)</b>	<b>29,018</b>	<b>42,516</b>	<b>(12,136)</b>	<b>30,380</b>

Transition Notes are detailed on page 40.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### University statement of comprehensive income and expenditure Year ended 31 July 2015

£000s	Notes	SORP 2007	STRGL items	Transition to FRS 102	FRS 102
<b>INCOME</b>					
Tuition fees and education contracts		12,580	-	-	12,580
Scottish Funding Council grants	1	14,885	-	289	15,174
Research grants and contracts		1,902	-	-	1,902
Other income	1	8,625	-	3	8,628
Investment income	2	331	(280)	-	51
Donations and endowments	3	-	263	-	263
<b>Total income</b>		<b>38,323</b>	<b>(17)</b>	<b>292</b>	<b>38,598</b>
<b>EXPENDITURE</b>					
Staff costs	4	22,129	151	206	22,486
Other operating expenses		9,535	-	-	9,535
Depreciation	5	2,332	-	2,353	4,685
Interest and other finance costs		957	437	5	1,399
<b>Total expenditure</b>		<b>34,953</b>	<b>588</b>	<b>2,564</b>	<b>38,105</b>
Surplus / (deficit) before tax		3,370	(605)	(2,272)	493
Taxation		-	-	-	-
Surplus for the year		3,370	(605)	(2,272)	493
Actuarial (loss)/gain in respect of pension schemes	2	-	869	-	869
<b>Total comprehensive income for the year</b>		<b>3,370</b>	<b>264</b>	<b>(2,272)</b>	<b>1,362</b>

Transition Notes are detailed on page 42

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 22 HARDSHIP AND CHILDCARE FUNDS

	2015/16 £000	2014/15 £000
<b>HARDSHIP FUND</b> (undergraduate and postgraduate)		
Balance at 1 August	-	-
Amounts received from Student Awards Agency for Scotland	236	218
Amount vired (to)/from Childcare Fund	(8)	52
	<u>228</u>	<u>270</u>
Disbursed to students	(222)	(270)
Refunded to Student Awards Agency for Scotland	(6)	-
	<u>-</u>	<u>-</u>
Balance unspent at 31 July	-	-
<b>CHILDCARE FUND</b>		
Balance at 1 August	0	0
Amounts received from Student Awards Agency for Scotland	123	121
	<u>123</u>	<u>121</u>
Disbursed to students	(127)	(72)
Amount vired (to)/from Hardship Fund	8	(49)
Administration costs	(4)	-
Refunded to Student Awards Agency for Scotland	-	-
	<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.



Queen Margaret University

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