Queen Margaret University, Edinburgh

Strategic Report and Financial Statements

for the year ended 31st July 2021

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CONTENTS

	PAGE
Principal's report	3
Strategic report	4 – 7
Directors' report	8
Corporate governance statement	11 – 14
Responsibilities of the University Court	15
Independent auditor's report	16 – 18
Statements of comprehensive income and expenditure	19
Statements of changes in reserves	20
Balance sheets as at 31 July 2021	21
Consolidated statement of cash flows	22
Statement of principal accounting policies	23 – 27
Notes to the financial statements	28 – 42

PRINCIPAL'S REPORT
for the year ended 31 July 2021

Despite the challenges of COVID, 2020/21 has been a very productive year for QMU. It began with us successfully welcoming students back on campus in the autumn, determined to live up to our reputation for providing a friendly and supportive learning community. Thanks to the efforts of our staff, we returned to something much more like normality compared to the latter part of the previous academic year, with a mix of on-campus and online activity. Although we did experience small numbers of COVID cases, numbers were much lower than at some other institutions, due partly to the set up of our halls of residence, but also to a large extent due to the socially responsible attitude and behaviour of our students.

In January, the state of the pandemic made a return to campus for semester 2 extremely challenging, with the impact of new COVID variants on society and consequent tightening of COVID restrictions at short notice. Through the tireless efforts of our staff, we negotiated this tricky period as smoothly as possible. We settled into an adapted model of learning and teaching which was largely online, but with face to face teaching where appropriate, and also ensuring appropriate student support, both online and face to face.

While there can be no doubt that this last year was extremely challenging for students and staff, we ended on a very positive note, offering on-campus graduation celebrations, at a point when many other universities felt unable to do so.

Pleasingly, COVID did not have any adverse impact on student numbers for the last year. Our home, rest of UK and international numbers were all above target, as was our tuition fee income, which included income from our educational partnerships. This reflects carefully concerted work to attract and engage prospective students, including innovative use of online channels, a greater than anticipated willingness of international students to travel, and high numbers of applicants achieving success in their SQA assessments. In addition, significant work was undertaken to ensure the retention and progression of existing students.

Despite the pandemic, we successfully introduced new courses, with a cohort of 80 students starting our BSc Paramedic Science programme. Looking ahead, there are still challenges in maintaining and growing student numbers, as the introduction of fees for EU students has made Scottish universities financially much less attractive to them. We are working to mitigate the impact of this change, and have offered a number of bursaries to students from EU countries. We are also seeking to capitalise on the increased attractiveness of the UK as a study destination for international students, who can now access visas allowing post-study work in the UK.

2020/21 was the first full year of implementation of our refreshed strategic plan. Holding true to the ethos of social justice on which this institution was founded, the plan sets out how our distinctive portfolio and person-centred approach to learning uniquely position us to contribute to recovery from the pandemic.

We saw great progress in a number of objectives associated with the strategy. One significant example is progress in our plans for an innovation park adjacent to the campus. The business case supporting development of a flagship food and drink innovation hub has been given the green light by the Edinburgh and South East Scotland City Region Deal Joint Committee, unlocking £30m of City Deal funding. The innovation hub will act as the catalyst for the development of the wider innovation park.

We were pleased to secure the support of Architecture & Design Scotland to enable us to create an outdoor learning hub. The hub will be a centre for local and national engagement in outdoor learning practice, leadership, and professional development. Also, we joined forces with the STV Children's Appeal and a local family charity to launch the East Lothian Tutoring Initiative. This project began by delivering one-to-one support to senior school pupils from all six secondary schools in East Lothian, and has subsequently expanded into Midlothian. We also appointed our first Entrepreneur in Residence. This appointment will help strengthen QMU's culture of entrepreneurship, encouraging and supporting more staff, students and graduates to start their own businesses, and helping fulfil the University's goal of becoming a leading centre of excellence for female entrepreneurship.

We made our submission to the Research Excellence Framework (REF) 2021 exercise in March 2021. I extend my thanks to colleagues from across the University for the extensive efforts required to complete the submission. We look forward to receiving the results of the REF exercise in May 2022.

Alongside our other research and knowledge exchange work, we have been delivering a number of immediately relevant and useful projects related to COVID and COVID recovery. We have also been proud to play our part in the national response to COVID, in line with our institutional focus on helping to create a better society, and the value we place upon partnership. We were pleased to host an NHS-run mass vaccination centre on campus throughout the first half of 2021.

Towards the end of the year, we received our latest National Student Survey results. These results reflect the way in which we worked to support students through COVID, with our score for 'Overall Satisfaction' being 6.4% above our benchmark and 4% above the UK average of 75%. Our students indicated that they were particularly pleased with the support they received from academic staff, with 'Academic Support' ranking 4th in Scotland. Students clearly valued feeling part of QMU's community of learners, with QMU's 'Learning Community' ranking 3rd in Scotland.

We entered the 2021/22 academic year ranked in the top 50% of universities in the Times and Sunday Times Good University Guide. So while the 2020/21 academic year was perhaps even more difficult than we might have expected, the University community has overcome many obstacles, demonstrating agility, creativity, camaraderie and a capacity for innovation wherever and whenever it has been needed. Further challenges remain, but we look forward to the future with real positivity.

Sir Paul Grice
Principal and Vice-Chancellor
December 2021

STRATEGIC REPORT

Status
Queen Margaret University, Edinburgh is an autonomous Scottish higher education institution. The University's governing instruments and arrangements are set out under the Queen Margaret University, Edinburgh (Scotland) Order of Council 2007, amended from 1 October 2019 through the Queen Margaret University, Edinburgh (Scotland) Amendment Order of Council 2019. The 2007 Order is made under section 45 of the Further and Higher Education (Scotland) Act 1992. The University is registered under the Companies Acts as a company limited by guarantee, with its registered office at 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 19 to 42 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 2019 (SORP 2019), with the Accounts Direction issued by the Scottish Funding Council (SFC) and with the United Kingdom Companies Acts. Information on the process which has been undertaken to inform the decision to prepare the financial statements on a going concern basis is set out in section (A) in the statement of principal accounting policies.

Development of strategic plan
The University's strategic plan remains rooted in the University's core values, and sets out a number of strategic goals, along with targets to be achieved by the end of the plan period in 2025. The plan is supported by a more detailed delivery plan, which sets out specific actions, along with timescales and owners, which will enable the achievement of the strategic plan goals and targets. A key element of the plan remains 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 University also has processes in place to manage the risks which might inhibit this achievement.

Results for the year
The Group's consolidated results for the year to 31 July 2021 are summarised as follows:-

	2020/21 £million	2019/20 £million
Total income	44.0	40.4
Total expenditure	(45.9)	(40.9)
(Deficit) for the year	**(1.9)**	**(0.5)**
Actuarial gain /(loss) in respect of pension schemes	12.7	(14.4)
Unrealised (deficit) /surplus on revaluation of land and buildings	(0.1)	5.2
Total comprehensive income /(expenditure) for the year	**10.7**	**(9.7)**

The main changes in the underlying outturn position compared to 2019/20 were:-

- An increase in SFC grants of £3.5 million. This included additional funding for the second year of the new initial teacher education programme and for the first year of the new paramedic science programme. The increase also included amounts totalling £1.8 million relating to COVID support and to additional funded places provided to address the additional student numbers resulting from the SQA exams issue in summer 2020;
- An increase of £1.1 million in income from tuition fees and education contracts, including additional students on new programmes;
- An increase in income from research grants and contracts, which was largely matched by additional costs;
- A reduction in other income of £1.7 million, largely as a result of cancellation of summer school business in 2020 and 2021 and accommodation fee refunds as a result of the COVID-19 pandemic;
- An increase of £3.8 million in staff costs, of which £2.4 million related to pension provision adjustments. The remaining £1.4 million increase related to additional staff costs on externally-funded research projects and costs related to COVID-19, as well as incremental drift;
- An increase of £1.4 million in other operating expenses in relation to additional payments to research partners on externally funded grants and to additional COVID expenditure, the latter funded by additional SFC grants.

Additional information on the adjustments relating to actuarial losses on pension schemes and to the revaluation of land and buildings is provided in notes 20 and 11 respectively.

QMU Enterprises Ltd generated a profit of £28,000 (2019/20: £220,000), which was passed to the University under deed of covenant.

STRATEGIC REPORT (continued)

Cash flows and liquidity
The result for the year, adjusted for the effect of non-cash items and interest, was a net cash inflow of £9.5 million on operating activities (2019/20, £4.3 million inflow). Overall cash balances increased by £6.835 million (2019/20; £0.690 million increase). Unrestricted cash balances at 31 July 2021 of £15.3 million (2020: £8.8 million) represented 136 days' expenditure (2020: 90 days).

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:-

- The impact of the COVID-19 pandemic on the University's operations and financial position.
- The full implications of the UK's exit from European Union are still unclear. However, it is likely that this will have an adverse impact on access for both students and staff from EU member states, and will introduce additional hurdles in accessing certain funding for research and other activities.
- 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, largely as a result of difficulties faced by international students in obtaining visas to study in the UK, although this may be mitigated to some extent by the reinstatement of the post-study work visa.
- Pressure on staff costs will continue 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' pension contributions.

The identification and management of risks is firmly embedded within the University's structure and processes. An updated risk management strategy has recently been adopted by the University Court. The institutional corporate risk register, which includes a description of actions undertaken to mitigate risks, is formally reviewed by the Senior Leadership Team 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.

Financial sustainability and going concern
The University Court has assessed the financial position of the University for the year ended 31 July 2021. The assessment period considered is the period to 31 July 2023 and further details of this assessment can be found on page 23. The University Court has assessed a number of factors as set out below and has concluded that there is an expectation that the University has adequate financial resources to continue to operate for the foreseeable future.

In reaching its conclusion, the University Court has considered the following factors:

- At the balance sheet date the University had net current assets of £7.046 million.
- Cash balances at 31 July 2021 amounted to £15.28 million. The University had liquid reserves (cash and investments) as at 31 July 2021 equivalent to approximately four and a half months' operating cash requirements.
- In the year to 31 July 2021 the University made an underlying surplus of £0.975 million before pension provision adjustments, and generated positive net cash from operating activities of £9.165 million. The University cash flow forecast shows an increasing cash trajectory, and no additional financing will be required to meet its liabilities.
- At the balance sheet date the University had external financing liabilities of £27.724 million, of which £24.836 million is payable to Barclays Bank plc with the remainder being payable to the Scottish Funding Council. As set out in Note 14, the University intends to enter into discussions around refinancing the element of the Barclays loan which will remain outstanding at the scheduled repayment date of 17 December 2024.
- All bank loan covenants were complied with for the year ended 31 July 2021.
- In relation to future years, we have considered headroom against covenants across a number of scenarios. We consider that, on the basis of current forecasts, there is sufficient headroom on the Debt Servicing and Minimum Cash Balance covenants under each of the scenarios considered. In relation to the potential impacts on income levels arising from the COVID-19 pandemic, a number of the downside scenarios, if they were to happen, would result in a breach of the Operational Leverage covenant for the years to 31 July 2022 and 2023. The University has considered mitigating actions which it would take in the event of such a loss in income, and is confident that it would be able to reduce discretionary expenditure by an amount which would allow all bank covenants to be met.
- Taking account of the business risks facing the University, we believe that the University and the group are well placed to continue to manage their business risks successfully.
- We have considered the impacts of COVID-19, in particular focussing on the threats to current and future income streams. Particular risks have been identified as a threat to income from international student tuition fees, and to summer school income. The impact of these risks will be informed largely by the length of time for which COVID restrictions remain in place.
- We have modelled three scenarios, including a severe downside case on our forecasts and have considered mitigating actions which could be put in place to reduce the negative financial impact.

STRATEGIC REPORT (continued)

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 November 2021, based on a rolling five-year period, were as follows:-

Indicator	Target	Average
EBITDA	12%	12.5%
Net cash flow from operating activities less interest payable as a percentage of turnover	6%	10.9%

The EBITDA average percentage has moved above the five-year average target, reflecting the positive result for 2020/21. The figure for the year to 31 July 2021 was 14.9%. The *"Net cash flow from operating activities less interest payable as a percentage of turnover"* indicator remains well above target, reflecting the University's relatively strong cash position, having increased from the 2019/20 figure of 7.6%.

Borrowings

Borrowings at 31 July 2021 amounted to £27.7 million (31 July 2020, £29.1 million). Of this amount, £24.9 million related to a secured loan facility with Barclays Bank plc taken out to fund the campus development at Musselburgh, and £2.8 million related to an unsecured loan from the Scottish Funding Council under the Financial Transactions scheme.

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 2021. 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 2021 of £21.0 million (2020 : £31.0 million).

The most recent actuarial review of the Scottish Teachers' Pension Scheme (STPS) was undertaken as at 31 March 2016. As a result of this review, the level of employers' contribution to this scheme was increased from 17.2% to 23.0% with effect from 1 September 2019. The valuation identified a notional shortfall of £1.3 billion, which is being repaid by a supplementary rate of 4.3% of employers' pension contributions over a 15-year period from 1 April 2019. This contribution is included in the 23.0% employers' contribution rate.

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

Further details on pension arrangements are set out in note 20 to the financial statements. Information on the impact of the 2020 valuation of the USS, which was finalised after the balance sheet date, are set out in note 21.

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. Our Contextual Admissions Policy commits to making offers to identified groups where we recognise that a range of factors may have impacted on attainment. 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, Mainstreaming Report and Equality Outcomes, and underpinned by the University's Outcome Agreement with the Scottish Funding Council.

STRATEGIC REPORT (continued)

Student satisfaction
The University participates in the National Student Survey (NSS). The 2021 institutional results show an overall satisfaction score of 79.0%, Along with most other universities, this score has fallen, from 82.6% in 2020, as a result of the disruption to the student experience caused by COVID-19. However, the score remains 4% above the UK average score of 75.4%, which has fallen by 7.2% since 2020. This has contributed towards an improvement in "league table" positions, including a rise of 23 places, from 89 to 66, in the Sunday Times Good University Guide.

Graduate employment
Our Employability Strategy brings together in a single document our approach to employability, with the primary objective of providing equitable employment and careers education to all students and graduates, and providing a public statement of our commitment to their success. We consider that our efforts are proving highly effective. Graduate level employment is at a similar level to the previous year, although a change in the methodology used to calculate this measure at national level means that the precise figures are not directly comparable.

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, digital, human resources and financial strategies are closely aligned. A review of the strategic plan was undertaken in early 2020, and whilst operations have been affected by the COVID-19 pandemic, the University continues to make good progress in a number of areas which will ensure that it is able to achieve the objectives set out in its strategic plan during the period through to 2025. This will, in turn, 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 impact of the UK's exit from the European Union on the University's operations and financial plans has become slightly clearer, but the long-term impact remains uncertain. The University has identified a number of elements which may have a significant impact on its operations. These include:-

- the impact on tuition fees from EU students (and the likely consequential reduction in EU student numbers choosing to study at Queen Margaret University);
- the ability to access research and other funding from EU institutions;
- the ability of the University to attract and retain staff from within the remaining EU; 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 was challenging prior to the COVID-19 pandemic, and those challenges have inevitably increased as a result of the pandemic. Whilst additional funding has been made available from the Scottish Funding Council to help to mitigate the financial losses arising from COVID, it is likely that, in the medium term, the level of funds available to the Scottish Government and the Scottish Funding Council (and therefore the amount available for distribution to universities) will continue to decline in real terms.

The COVID-19 pandemic has had a significant impact on the University's operations throughout 2020. Whilst there has been significant disruption to the University's activities, the pandemic has also allowed the University to identify a number of opportunities to contribute towards the rebuilding of society post-COVID. The importance of the subjects in which Queen Margaret University specialises, particularly in health care subjects, means that there will be opportunities to develop teaching and research practices in these areas. Opportunities have been taken to develop additional partnerships, both within the higher education sector and beyond, and these will allow the University to move towards delivering its strategic goals, both locally and internationally.

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. The recent review and refresh of the University's strategic plan has provided additional focus for the University's activities whilst at the same time creating an environment which will allow the development of further new and increased sources of income to take place.

On behalf of the University Court

Pamela Woodburn
Chair
1 December 2021

DIRECTORS' REPORT

Section 172(1) Statement - Companies Act 2006
This statement sets out how the Directors of Queen Margaret University, Edinburgh, have applied and complied with Section 172(1) of the Companies Act 2006 in accordance with the Companies (Miscellaneous Reporting) Regulations 2018. The University Court, as Directors of the company limited by guarantee, must, as those of all UK companies, act in accordance with a set of general duties set out in section 172 of the Companies Act 2006 (the Act). The Board of Directors consider, both individually and together, that they have acted in the way, in good faith, that would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 31 July 2021.

The Board of Directors' intention is to behave responsibly and ensure that the University business operates in a responsible manner with the aim of maintaining a reputation for high standards of business conduct and good governance. The Board is collectively responsible for the long-term success of the University and, as part of their induction programme, the Directors are briefed on their duties under the Act. Directors also have access to ongoing training and development to provide them with the relevant skills and knowledge to conduct their duties as Directors on the Board. Further information on the way in which the Directors fulfil their duties relating to good governance and decision making under the Act is set out in the Corporate Governance Statement later in this report.

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 staff briefing sessions and through regular communication from the Principal. During the COVID-19 pandemic, regular (at least weekly) updates have been provided to all staff to ensure that they are well informed about the University's response to the pandemic. The University operates a performance enhancement review scheme, which is open to all staff.

Student involvement
The University seeks to take account of the views of the student body. The Student President and Vice-President are full members of the University Court and the Senate, and there are two additional student members of Senate, making four in total, or 10% of the total membership. There is student representation on all other major committees of the University. 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.

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.

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 2021, trade creditors represented 31 days of relevant expenditure (2020: 38 days). Interest paid under the Late Payment of Commercial Debts (Interest) Act 1998 was £nil (2019/20: £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, and the University Court's assessment of going concern. Further information on the assessment of going concern is also set out in the section on accounting policies on page 23. 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.

DIRECTORS' REPORT (continued)

MEMBERSHIP OF THE UNIVERSITY COURT

Name		Attendance record	
Pamela Woodburn (Chair)	Appointed 1 April 2021	2/2	Scottish Programme Funding, Christian Aid
Linda McPherson (Acting Chair)	Appointed 1 October 2014, Acting Chair to 31 March 2021, Retired 31 March 2021	5/5	Former Senior Director - Food and Drink, Tourism & Textile, Scottish Enterprise
Elaine Acaster, OBE (Vice Chair)	Appointed 28 June 2017 Vice Chair from 1 April 2021	7/7	Former Vice Principal, Royal Veterinary College, University of London
Carolyn Bell	Appointed 1 October 2016	6/7	Solicitor
Professor Richard Butt	Appointed 1 September 2016	7/7	Deputy Principal *Ex officio*
Professor Graham Caie, CBE	Appointed 1 December 2014 Retired 30 November 2020	1/1	Former Chair, National Library of Scotland Governance Committee, Vice President of the Royal Society of Edinburgh
Colin Cox	Appointed 1 October 2019	7/7	Nominated Trade Union Member – Support Staff
Karen Cullen	Appointed 1 June 2019	7/7	Elected Support Staff Member
Sophie Cunningham	Elected 10 June 2021	1/1	Student Vice-President
Dr Maria Giatsi-Clausen	Appointed 1 October 2019	6/7	Nominated Trade Union Member – Academic Staff
Sir Paul Grice	Appointed 1 October 2019	7/7	Principal & Vice-Chancellor *Ex officio*
Cynthia Guthrie	Appointed 1 December 2015 Retired 30 November 2021	6/7	Joint Managing Director, Guthrie Group Limited
Professor John Harper	Appointed 1 December 2020	5/5	Retired Principal and Vice Chancellor, Robert Gordon University
Steven Hendry	Appointed 1 June 2021	1/1	Director, Capital Markets Team, CBRE
Dr Arturo Langa	Appointed 1 October 2019	7/7	Consultant Psychiatrist, NHS Lanarkshire
Francis Lennon, OBE	Appointed 1 October 2016	5/7	Former Head Teacher
Ruth Magowan	Appointed 11 December 2017 Retired 31 October 2020	2/2	Staff member, Appointed by Senate
Ken McGarrity	Appointed 1 October 2016	7/7	Former Finance Director, Nairn's Oatcakes
Chiara Menozzi	Appointed 10 June 2019 Retired 9 June 2021	6/6	Student President
Melanie Moreland	Appointed 1 January 2018	7/7	Senior Manager/Delivery Manager, Royal Bank of Scotland
Aasiyah Patankar	Elected 10 June 2021	1/1	Student President
Robert Pattullo	Appointed 23 May 2018	7/7	Start-up Company Mentor. Former Vice-Chair Citizens' Advice Edinburgh.
Sarah Phillips	Appointed 28 June 2017	7/7	Solicitor
Elizabeth Porter	Appointed 1 October 2019	5/7	Chartered Management Accountant
Dr Eurig Scandrett	Appointed 1 December 2016	6/7	Elected Academic Staff Member
Dr Andrew Scott	Appointed 28 June 2017	6/7	Director, Scottish Government
Garvin Sealy	Appointed 1 June 2021	1/1	Co-Director, Equali-Tree Community Interest Company
Andrew White	Appointed 10 June 2019 Retired 9 June 2021	6/6	Student Vice-President

DIRECTORS' REPORT (continued)

Membership of University Court Committees during the year to 31 July 2021

Audit and Risk Committee

Name		Attendance record
Professor Graham Caie	Convener, retired 30 November 2020	1/1
Robert Pattullo	Convener, appointed 1 December 2020	3/3
Elaine Acaster		4/5
Carolyn Bell		4/5
Elizabeth Porter		5/5

Finance & Estates Committee

Name		Attendance record
Ken McGarrity	Convener	5/5
Professor Richard Butt		5/5
Sir Paul Grice		5/5
Cynthia Guthrie		4/5
Linda McPherson	Retired 31 March 2021	3/4
Robert Pattullo	Retired 30 November 2020	2/2
Dr Andrew Scott		5/5

Nominations Committee

Name		Attendance record
*Linda McPherson	Convener, retired 31 March 2021	3/3
Pamela Woodburn	Convener, appointed 1 April 2021	0/0
Elaine Acaster		3/3
Karen Cullen		3/3
Sir Paul Grice		3/3
Aasiyah Patankar	Appointed 10 June 2021	0/0
Robert Pattullo		3/3
Chiara Menozzi	Retired 9 June 2021	3/3

**Convener of the Appointment Committee for the Chair of Court*

The Nominations Committee formed the Appointment Committee for the Chair of the University Court for one of the three meetings listed.

Senior Management Remuneration Committee

Name		Attendance record
Linda McPherson	Convener, retired 31 March 2021	n/a
Elaine Acaster	Convener from 1 April 2021	n/a
Francis Lennon		n/a
Sarah Phillips		n/a

The Senior Management Remuneration Committee did not meet in 2020/21 on the basis that no award, including the national pay award, was sought by members of the Senior Leadership Team for the period under review.

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. 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

Pamela Woodburn
Chair
1 December 2021

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 (Revised 2017). 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 2021. The University Court also considers that the University is compliant with the principles of the Scottish Code of Good Higher Education Governance 2017.

Consistent with Article 4(9) of the University's Statutory Instrument and the Scottish Code of Good Higher Education Governance (2017), the University Court has adopted a Statement of Primary Responsibilities that includes provisions relating to:

- determining the University's mission and strategic vision, its strategic plan, key performance indicators (KPIs) and annual budgets, fostering an environment in which the objects of the University are achieved with due regard to the interests of students, staff, and other stakeholders;
- appointing a Chancellor;
- appointing a Principal and Vice-Chancellor of the University, including the terms and conditions attaching to such appointment, and putting in place suitable arrangements for reviewing their performance;
- protecting the reputation and values of the University, and overseeing its activities;
- ensuring, in conjunction with Senate, the quality of institutional educational provision and adequate provision for the general welfare of students;
- ensuring that non-discriminatory systems are in place to provide equality and diversity of opportunity for staff and students;
- 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: https://www.qmu.ac.uk/about-the-university/university-court/

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 2021 and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the University Court, and accords with the Turnbull guidance, as applicable to the higher education sector. The University has in place a business continuity and risk management and policy framework for the whole organisation. In addition, each of the key areas within the institution, including the Senior Leadership Team (SLT), 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 Senior Leadership Team and the Audit & Risk Committee, and regular reports are made to the University Court.

The University Court comprises categories of persons appointed under the University's Statutory Instrument, an amended version of which came into force on 1 October 2019. The majority of the membership is 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 2007 Order of Council, the University Court delegates to the Principal and Vice-Chancellor the organisation, management and discipline of the University. In discharging these functions, the Principal and Vice-Chancellor is subject to the general control and direction of, and is accountable to, the University Court, but otherwise has all powers and duties of the University Court in relation to these functions. The University maintains a register of interests of members of the University Court and senior officers, which is published on the University website.

CORPORATE GOVERNANCE STATEMENT (continued)

To assist members in the performance of their duties, members of the University Court were offered, and attended a number of training and development opportunities during 2020-21. In line with necessary restrictions in place during the Coronavirus Emergency, members attended training and development sessions on-line. Members also received presentations on strategic themes relevant to the work of the University at each Court meeting. Training and development opportunities offered to Court members in 2020/21 included:

- Advance HE Governor Development Programme for New and Student Governors, 15 October 2020
- Advance HE Scottish Governance Symposium: On-line event, May 2021

New members also received a formal induction session supported by the Court Members' Handbook, published originally in October 2016 and updated annually. The current version may be found at: https://www.qmu.ac.uk/media/7813/court-members-handbook.pdf

In accordance with the Financial Memorandum with the Scottish Funding Council (SFC), the University Court is responsible for setting the strategic direction of the University, the approval of overall institutional budgets and major developments and the receipt of regular reports from executive officers on the day to day operation of its business and its subsidiary companies.

The University Court has five Ordinary meetings per annum, and has provided delegated authority to a number of Committees, as set out below. In addition, the University Court held two Extraordinary meetings during the period under review. An extraordinary meeting held in September 2020 provided members with an update on progress made in ensuring the safe return of students and staff to campus under the prevailing Coronavirus restrictions, and in securing the University's business recovery. An extraordinary meeting held in April 2021 provided members of the University Court with the opportunity to discuss and approve the submission of the full business case (FBC) for the development of the Edinburgh Innovation Park Hub, seeking funding from the Edinburgh & South East Scotland City Region Deal ("the City Deal").

In response to the Coronavirus Emergency, each of the meetings of the University Court held during the year to 31 July 2021 were held virtually. The Office of the Scottish Charity Regulator recognised that holding meetings virtually is a good option, and stated that charities might hold their meetings in this way, even where the governing document is silent on the matter. The University Court Standing Orders are silent on the matter. In line with good governance, the discussion and decisions of the University Court have been recorded in the form of confirmed minutes approved by members.

At each of the meetings, members considered key matters relating to the University's response to the Coronavirus Emergency, including matters concerned with the maintenance of academic delivery, protection of academic standards, and wellbeing and other support for students and staff.

Each of the standing 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. Lay members are represented on the Equality and Diversity Committee and the Health and Safety Committee, both of which report to the University Court. All meetings held in the period September 2020 to May 2021 were held virtually due to restrictions arising from the Coronavirus Emergency.

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

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

The Audit and Risk Committee and the Finance and Estates Committee held a joint meeting in January 2021 at which the 2019/20 year end financial statements were presented for discussion and agreement.

CORPORATE GOVERNANCE STATEMENT (continued)

The Nominations Committee makes recommendations to the University Court on appointment to vacancies in the University Court lay membership, and on appointment to vacancies in the standing committees of the Court in line with each respective committee's skills matrix. During the period August 2020 to January 2021, the Committee formed the Appointing Committee for the appointment and election of the Chair of the University Court, as provided for in the Queen Margaret University, Edinburgh (Scotland) Amendment Order of Council 2019. In assuming this role, the Committee acted in accordance with sections 3 to 8 of the Higher Education Governance (Scotland) Act 2016, and in line with the appointment process set out in Section 11 of the Standing Orders of the University Court approved by the University Court on 26 June 2019. An election held in January 2021 resulted in the appointment of Pamela Woodburn to the position of Chair of the University Court with effect from 1 April 2021.

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 Senior Leadership Team in line with agreed policies, and in accordance with good corporate and higher education governance. The Principal attends meetings of the Committee, but is not a member, and does not participate in any review by the Committee of his or her own remuneration or reward package. The Committee also reviews arrangements in place for determining the salaries of those senior staff with Professorial title. The Committee did not meet in 2020 on the basis that no award, including the national pay award, was sought by members of the Senior Leadership Team for the period under review

The Senior Leadership Team comprises the Principal, the Deputy Principal and five senior officers of the University. It receives reports on key performance and risk indicators, and discusses any control issues brought to its attention. The Senior Leadership Team and the Audit & Risk Committee receive regular reports from the internal auditors, with the Audit & Risk Committee's role in this area being confined to a high level review of the arrangements for internal financial control. The University Court receives reports on risk and control issues from management and the Audit & Risk Committee as appropriate.

Higher Education Governance (Scotland) Act 2016

The Higher Education Governance (Scotland) Act 2016 (Commencement, Transitory, Transitional and Savings Provisions) Regulations 2016 were laid in Parliament on 24 November 2016, and came into force on 30 December 2016. The University Court has assessed in full the impact of the key provisions of the Act on the University's governance arrangements, including those concerning the election of the senior lay member of the governing body, and the composition and size of the Court and the Senate. The Queen Margaret University, Edinburgh (Scotland) Amendment Order of Council 2019 came into force on 1 October 2019.

The requirements for membership of the academic board of a higher education institution have been met fully. The Order of Council 2007 does not set out in detail the composition of the Senate, but rather states simply that the Court 'shall establish a Senate which shall be constituted and regulated in a manner specified by the Court from time to time on the recommendation of the Principal'. Consequently, there was no requirement to amend the Order of Council to bring it in line with the legislation.

The University Court completed a full mapping of its alignment with the requirements of the revised Scottish Code of Good Higher Education Governance on its publication in 2017. The one outstanding matter arising from that mapping was concluded on 1 October 2019, with the publication of the amended Queen Margaret University Order of Council which established rules that formed the basis of the Chair of Court election in January 2021. In the opinion of the University Court, the University complied with the principles and provisions of the 2017 Scottish Code of Good Higher Education Governance throughout the year to 31 July 2021.

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'. Throughout 2020-21, 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.

Equality and Diversity

While responsibility for mainstreaming equality and diversity within the University rests with all staff and students, the University Court is, as a matter of law, responsible for ensuring compliance with the Equality Act 2010 and for ensuring that the University meets its public sector equality duty (PSED) and the specific duties relevant to Scotland. The University Court exercises such oversight through the Equality and Diversity Committee (EDC), which is responsible to the University Court for the development of the strategic framework for equality in service provision and in employment across the University.

CORPORATE GOVERNANCE STATEMENT (continued)

Embedding equality and diversity in our governance structures and in our strategic planning process is critical to mainstreaming equality and diversity, as is defining responsibilities, setting performance measures and monitoring progress against those measures. The University's Mainstreaming Report and Equality Outcomes, which sets out progress on mainstreaming equality and establishes a number of outcomes for the period 2021-25, was approved by the Court in April 2021. The report can be found at: https://www.qmu.ac.uk/about-the-university/equality-and-diversity/mainstreaming-report-equality-outcomes-and-employee-information/

The University is committed to ensuring that the University Court (Court), Senate and all committees and decision making bodies of the University are representative of its community. In particular, the University is committed to achieving the following goals and targets:

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

The outcomes established in these reports, and within the University's Outcome Agreement with the SFC, form the basis of the Equality and Diversity Committee Action Plan, updates to which were reported at each meeting of the University Court.

At the time of writing, the gender balance of membership of Court sits at 50% female and 50% male. Equality Monitoring has been undertaken in respect of all Court members since 2017/18.

System of Internal Financial Control

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

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

The Audit & Risk Committee, on behalf of the University Court, reviews the effectiveness of the Group's system of internal financial control as part of a rolling programme. The Committee has formed the opinion that the University's systems provide a reasonable basis for maintaining control and ensuring the achievement of economy, efficiency and effectiveness. In reaching its opinion, the Committee has taken into account the opinions of the internal and external auditors, as well as information and representations provided by University management to the Committee and to the University Court. 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

Pamela Woodburn
Chair

Sir Paul Grice
Principal & Vice-Chancellor

1 December 2021

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 the University Court to ensure that the financial statements are prepared in accordance with the University's 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 COURT OF QUEEN MARGARET UNIVERSITY, EDINBURGH

Opinion

We have audited the financial statements of Queen Margaret University, Edinburgh ('the parent institution') and its subsidiary (the 'group') for the year ended 31 July 2021 which comprise the Statements of Comprehensive Income and Expenditure, Statements of Changes in Reserves, Balance Sheets, Consolidated Statement of Cashflows and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the group's and of the parent institution's state of affairs as at 31 July 2021 and of the group and parent institution's income and expenditure, recognised gains and losses and changes in reserves and of the group's statement of cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, and relevant legislation; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of the Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the University Court's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent institution's ability to continue as a going concern for a period of 20 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Other information

The other information comprises the information included in the Strategic Report and Financial Statements, other than the financial statements and our auditor's report thereon. The University Court is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Financial Statements, which includes the directors' report and the strategic report prepared for the purpose of company law, for the financial year for which the financial statements are prepared, is consistent with the financial statements; and
- the strategic report and the directors' report included within the Strategic Report and Financial Statements, have been prepared in accordance with applicable legal requirements.

Opinion on other matters prescribed by the Scottish Funding Council's Financial Memorandum with Higher Education Institutions
In our opinion, in all material respects:

- the requirements of the Scottish Funding Council's accounts direction have been met;
- 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 Scottish Funding Council Financial Memorandum with Higher Education Institutions.

Matters on which we are required to report by exception
In light of the knowledge and understanding of the Group and Parent Institution and its environment obtained in the course of the audit, we have identified no material misstatements in the strategic report or the directors' report included within the Strategic Report and Financial Statements.

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:

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

Responsibilities of the University Court
As explained more fully in the Responsibilities of the University Court set out on page 15, the University Court (who are also the directors of the parent institution 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, and for such internal control as the University Court determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements
We have been appointed as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and under the Companies Act 2006 and report in accordance with the Acts and relevant regulations made or having effect thereunder.

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the University and management.
Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and parent institution and determined that the most significant are FRS 102 and Statement of Recommended Practice for Further and Higher Education.
- We understood how the group and parent institution is complying with those frameworks by making enquiries of management and those responsible for legal and compliance procedures. We corroborated our enquires through our review of the Court minutes and papers provided to the Audit and Risk Committee at a Group level, as well as consideration of the results of our audit procedures to either corroborate or provide contrary evidence which was then followed up;
- We assessed the susceptibility of the group and parent institution's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where they considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage income and expenditure. Where this risk was considered higher, we performed audit procedures to address the risk of fraud and management override. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error;
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved enquiries of management, those charged with governance and those responsible for legal and compliance procedures; journal entry testing with a focus on journals indicating large or unusual transactions based on our understanding of the business and a review of Court minutes to identify any non-compliance with laws and regulations.

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

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

Stephen Reid (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
2 December 2021

Notes:
1. The maintenance and integrity of Queen Margaret University, Edinburgh's web site is the responsibility of the University Court; 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.

STATEMENTS OF COMPREHENSIVE INCOME AND EXPENDITURE
For the Year Ended 31 July 2021

		Consolidated		University	
		2020/21	2019/20	2020/21	2019/20
		£000	£000	£000	£000
INCOME					
Tuition fees and education contracts	1	15,058	13,918	15,058	13,918
Scottish Funding Council grants	2	20,707	17,171	20,707	17,171
Research grants and contracts	3	2,986	2,421	2,809	2,404
Other income	4	4,799	6,532	4,473	6,308
Investment income	5	15	56	15	55
Donations and endowments	6	466	339	466	339
Total income		44,031	40,437	43,528	40,195
EXPENDITURE					
Staff costs	7	26,968	23,153	26,793	23,089
Other operating expenses	10	12,298	10,901	11,970	10,723
Depreciation	11	5,071	5,314	5,071	5,314
Interest and other finance costs	8	1,545	1,548	1,545	1,548
Total expenditure		45,882	40,916	45,379	40,674
(Deficit)/surplus before other gains/(losses)		(1,851)	(479)	(1,851)	(479)
Gain/(loss) on disposal of tangible asset		-	4	-	4
(Deficit) / surplus for the year		**(1,851)**	**(475)**	**(1,851)**	**(475)**
Unrealised (deficit) /surplus on revaluation of land and buildings		(145)	5,168	(145)	5,168
Actuarial gain /(loss) in respect of pension schemes		12,743	(14,439)	12,743	(14,439)
Total comprehensive income /(expenditure) for the year		**10,747**	**(9,746)**	**10,747**	**(9,746)**

Represented by:-

Endowment comprehensive income for the year	227	179	227	179
Unrestricted comprehensive income for the year	10,665	(15,093)	10,665	(15,093)
Revaluation reserve comprehensive income for the year	(145)	5,168	(145)	5,168
	10,747	**(9,746)**	**10,747**	**(9,746)**

All items of income and expenditure relate to continuing activities.

The accompanying notes and policies on pages 23 to 42 form part of these financial statements

STATEMENTS OF CHANGES IN RESERVES
For the Year Ended 31 July 2021

Consolidated and University

£000s	Income & Expenditure Account			
	Endowments	**Unrestricted**	**Revaluation reserve**	**Total**
Balance at 1 August 2019	**642**	**10,645**	**61,412**	**72,699**
Surplus /(deficit) from the income & expenditure statement	179	(15,093)	-	(14,914)
Revaluation gain	-	-	5,168	5,168
Transfer between revaluation and income & expenditure reserves	-	-	-	-
Balance at 1 August 2020	**821**	**(4,448)**	**66,580**	**62,953**
Surplus /(deficit) from the income and expenditure statement	227	10,665	-	10,892
Revaluation (loss)	-	-	(145)	(145)
Transfer between revaluation and income & expenditure reserves	-	-	-	-
Balance at 31 July 2021	**1,048**	**6,217**	**66,435**	**73,700**

BALANCE SHEETS AS AT 31 JULY 2021

	Note	Consolidated 2021 £000	Consolidated 2020 £000	University 2021 £000	University 2020 £000
FIXED ASSETS					
Tangible assets	11	123,629	128,755	123,629	128,755
Investments	12	-	-	-	-
		123,629	128,755	123,629	128,755
CURRENT ASSETS					
Trade and other receivables	13	1,755	2,522	1,783	2,982
Cash at bank and in hand		15,607	8,772	15,380	8,252
		17,362	11,294	17,163	11,234
CREDITORS: amounts falling due within one year	14	(9,774)	(7,272)	(9,575)	(7,212)
NET CURRENT ASSETS / (LIABILITIES)		7,588	4,022	7,588	4,022
TOTAL ASSETS LESS CURRENT LIABILITIES		131,217	132,777	131,217	132,777
CREDITORS : amounts falling due after more than one year	15	(33,104)	(35,251)	(33,104)	(35,251)
PROVISIONS FOR LIABILITIES AND CHARGES	16	(24,413)	(34,573)	(24,413)	(34,573)
NET ASSETS		**73,700**	**62,953**	**73,700**	**62,953**
RESTRICTED RESERVES					
Income & expenditure reserve – endowment reserve	17	1,048	821	1,048	821
UNRESTRICTED RESERVES					
Income & expenditure reserve – unrestricted		6,217	(4,448)	6,217	(4,448)
Revaluation reserve	18	66,435	66,580	66,435	66,580
TOTAL RESERVES		**73,700**	**62,953**	**73,700**	**62,953**

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

The financial statements on pages 19 to 42 were approved by the University Court on 1 December 2021 and signed on its behalf by:

Pamela Woodburn
Chair

Sir Paul Grice
Principal and Vice-Chancellor

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 July 2021

	Note	2020/21 £000	2019/20 £000
Cash flows from operating activities			
(Deficit) / surplus for the year		(1,851)	(475)
Adjustments for non-cash items			
Depreciation	11	5,071	5,314
Deferred capital grants released		(649)	(649)
Pension costs less contributions payable		2,825	1,220
(Increase) /decrease in operating debtors		767	(812)
Increase / (decrease) in operating creditors		2,496	(940)
Increase / (decrease) in pension provision		(242)	(502)
Adjustments for investing or financing activities			
Investment income and interest receivable		(15)	(56)
Interest payable		1,090	1,187
(Gain)/loss on the sale of tangible assets		-	(4)
Net cash inflow / (outflow) from operating activities		9,492	4,283
Cash flows from investing activities			
Investment income		15	56
Payments made to acquire fixed assets		(90)	(940)
		(75)	(884)
Cash flows from financing activities			
Interest paid		(1,090)	(1,187)
Repayments of amounts borrowed		(4,326)	(1,522)
New unsecured loans in year		2,834	-
		(2,582)	(2,709)
Increase / (decrease) in cash and cash equivalents in the year		**6,835**	**690**
Cash and cash equivalents at beginning of the year		8,772	8,082
Cash and cash equivalents at end of the year		15,607	8,772
		6,835	**690**

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 (including going concern assessment)**

The financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2019 ("SORP 2019") and in accordance with Financial Reporting Standard (FRS) 102 and with the Accounts Direction issued by the Scottish Funding Council.

The University is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings.

The functional currency of the University is pounds sterling, and the financial statements have been prepared to round £000s.

The financial statements have been prepared on a going concern basis. The University and Group's activities, financial performance and financial position, together with factors likely to affect its future development and performance, are described in the Strategic Report. Emerging and principal risks and uncertainties facing the University are described on page 5. At 31 July 2021, the University held gross cash of £15.3 million, excluding restricted funds held on behalf of SAAS (2020 gross cash of £8.8 million), while net current assets were £7.6 million. At 31 October 2021 the University held £16.8 million of gross cash.

The University's external borrowings at 31 July 2021 totalled £27.7 million. Of this amount, £24.9 million related to a secured loan facility with Barclays Bank plc taken out to fund the campus development at Musselburgh, and £2.8 million related to an unsecured loan from the Scottish Funding Council under the Financial Transactions scheme. The University's secured borrowings from Barclays Bank plc, as described above are subject to covenant terms. The University was fully compliant with those covenant terms during the year to 31 July 2021. A further £3 million of borrowings will be repayable during the going concern period to 31 July 2023.

Cash flow forecasts were prepared for the period up to 31 July 2023 to support management's assessment of going concern. The institution's base case scenario for the period forecast compliance with all loan covenants to 31 July 2023 and liquidity headroom no lower than £7.9 million through the going concern period.

In light of the unprecedented nature of the COVID-19 pandemic and its potential impacts on funding and key income streams, there has been significantly increased focus on the area of going concern. Management's going concern assessment included consideration of risks in the following areas:

- Future student intake for the remainder of 2021/22 and the following academic year particularly in relation to international students
- Other income streams for both 2021/22 and the following academic year, concerning in particular English Language Teaching income

Management has modelled a plausible downside scenario based on further disruption resulting from COVID-19 and the related impacts on tuition fee and other income, in which it retains liquidity headroom and compliance with covenants through the going concern period with both plausible and available mitigating actions being undertaken. These mitigations include reducing uncommitted future spend on capital and maintenance programmes, vacancy management and early repayment of borrowings.

In response to the continuing uncertainties arising as a result of the COVID-19 pandemic, the University entered discussions with Barclays regarding amendment of covenant terms, and reached agreement on 29 September 2021 on a revised ratio for the measurement of the Operational Leverage covenant as at 31 July 2022.

The University is continuing to monitor its forecast compliance with covenants. Management is confident that there are sufficient mitigating actions within the University's control that would offset any reduced income to ensure compliance with future loan covenants, before the requirement for further renegotiation of covenants with its lender should plausible worst case scenarios occur.

After reviewing these forecasts, the University Court is of the opinion that, taking account of severe but plausible downsides, including the potential impact of COVID-19, the Group and parent University will have sufficient funds to meet their liabilities as they fall due over the period to 31 July 2023.

Based on the assessment outlined above, the University has concluded that it has adequate resources to continue in operation for the period to 31 July 2023, and for this reason the going concern basis continues to be adopted when preparing the financial statements.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

(B) **Basis of consolidation**

The consolidated financial statements include the University and its subsidiary undertaking for the financial year ended 31 July 2021. Details of QMU Enterprises are given in note 12. Intra-group transactions are eliminated on consolidation. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated.

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

(C) **Recognition of income**

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

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

Investment income is credited to income on a receivable basis.

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

Grant funding

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

Donations and endowments

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

Capital grants

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

(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' Pension Scheme (STPS) and the Universities Superannuation Scheme (USS). All three are defined benefit schemes.

Local Government Pension Scheme

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 credit 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' Pension Scheme

The STPS is an unfunded multi-employer defined benefit scheme. Contributions are credited to the Exchequer, and the Exchequer effectively meets the costs of all benefits. The scheme is financed by payments from employers and from those current employees who are members of the scheme and who pay contributions at progressively higher marginal rates based on pensionable pay, as specified in the regulations. The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has accounted for its contributions as if it were a defined contribution scheme. The University has no obligation for other employers' obligations to the multi-employer scheme.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

(D) **Accounting for retirement benefits (continued)**

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

Enhanced pension benefits
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.

(F) **Leases and hire purchase contracts**
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 held on a basis of fair value 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 at least 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 heritable properties comprising Queen Margaret University's property estate were valued as at 31 July 2021 by an external valuer, Gerald Eve LLP, a regulated firm of Chartered Surveyors. The valuation was prepared in accordance with the requirements of the RICS Valuation - Global Standards 2020 and UK National Supplement, Financial Reporting Standard 102 and the 2019 Statement of Recommended Practice 'Accounting for Further and Higher Education'. The valuation was undertaken on a Fair Value basis, with specialised properties valued by reference to Depreciated Replacement Cost, and with non-specialised operational properties valued on a Fair Value basis equating to Market Value on the assumption of a continuation of the existing use. The valuation is reported under the special assumption to exclude any value of development opportunities for which planning permission would be required and has not been granted or where development has not yet commenced.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

(H) **Fixed assets (continued)**

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.

(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.

(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 cannot 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. The policy is to revalue the estate at least every 5 years, and any surplus arising is added to the revaluation reserve.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

(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 are the key sources 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.

In relation specifically to the Universities Superannuation Scheme, FRS 102 makes the distinction between a group plan and a multi-employer scheme. A group plan consists of a collection of entities under common control typically with a sponsoring employer. A multi-employer scheme is a scheme for entities not under common control and represents (typically) an industry-wide scheme such as the Universities Superannuation Scheme. The accounting for a multi-employer scheme where the employer has entered into an agreement with the scheme that determines how the employer will fund a deficit results in the recognition of 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 profit or loss in accordance with section 28 of FRS 102. The University Court members are satisfied that Universities Superannuation Scheme meets the definition of a multi-employer scheme and the University has therefore recognised the discounted fair value of the contractual contributions under the recovery plan in existence at the date of approving these financial statements.

Valuation of land and buildings

The part of the University campus comprising the student accommodation was revalued at 31 July 2021 by Gerald Eve, Chartered Surveyors. The valuation was prepared in accordance with the requirements of the RICS Valuation - Global Standards (January 2020 edition) and Financial Reporting Standard 102 and the 2019 Statement of Recommended Practice 'Accounting for Further and Higher Education'. The valuation was undertaken on a Fair Value basis, equated to Market Value on the assumption of a continuation of the existing use. This exercise resulted in a revaluation loss of £1.440 million, which has been reflected in the financial statements. The valuation took into account the impact of the COVID-19 pandemic and the requirement to undertake an ongoing programme of maintenance works on the ability to generate income from summer letting activities.

The part of the University campus comprising the academic buildings was revalued at 31 July 2021 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. This exercise resulted in a revaluation gain of £1.260 million, which has been reflected in the financial statements.

Measures taken to tackle the COVID-19 pandemic continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date some property markets had started to function again, with transaction volumes and other relevant evidence returning to levels where an adequate quantum of market evidence existed upon which to base opinions of value. Accordingly, the valuations undertaken by Gerald Eve at 31 July 2021 were not reported as being subject to ‘material valuation uncertainty’ as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

Management has considered the basis used to undertake both valuations and has satisfied itself that the basis, and the resulting valuations, are reasonable. The net revaluation loss arising out of the two valuations was £0.145 million.

Effect if actual results differ from assumptions

The value of all of the University’s land and buildings subject to revaluation was £122.9 million prior to the 2021 revaluation. The impact of a 5% change in valuation would be £6.1 million, either resulting in an increase or a decrease in the University’s revaluation reserve or an additional impairment charge.

NOTES TO THE FINANCIAL STATEMENTS

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

	2020/21 £000	2019/20 £000
Scottish higher education students	6,504	5,708
Rest of UK students	1,560	1,016
European Union (excluding UK) students	2,564	2,881
Non-European Union students	2,473	2,326
Other fees and discounts	(355)	(363)
Education contracts	2,312	2,350
	15,058	**13,918**

2. SCOTTISH FUNDING COUNCIL GRANTS
(consolidated and university)

	2020/21 £000	2019/20 £000
Recurrent grant		
Teaching	14,351	13,517
Research	1,473	1,108
Specific grants		
Wider access retention funding	611	597
Other specific grants	412	64
Disabled students premium	60	57
Knowledge exchange / University Innovation Fund	392	385
Other teaching grants	895	293
Capital maintenance grant released	468	344
COVID support grants	1,110	-
Other miscellaneous grants	286	157
Deferred capital grants released (note15)		
Land & buildings	649	649
	20,707	**17,171**

3. RESEARCH GRANTS & CONTRACTS

	Consolidated		University	
	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000
Research councils	210	303	210	303
UK based charities	137	148	118	138
UK government and health authorities	2,225	1,729	2,067	1,729
UK private sector	-	5	-	-
European funding	325	110	325	108
Other grants & contracts	89	126	89	126
	2,986	**2,421**	**2,809**	**2,404**

4. OTHER OPERATING INCOME

	Consolidated		University	
	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000
Residences, catering and conferences	3,541	3,872	3,495	3,602
Other services rendered	387	505	79	331
Sports centre income	59	148	59	148
Coronavirus Job Retention Scheme income	91	70	91	70
Other income	721	1,937	749	2,157
	4,799	**6,532**	**4,473**	**6,308**

NOTES TO THE FINANCIAL STATEMENTS

5. INVESTMENT INCOME

	Consolidated		University	
	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000
Other investment income	15	56	15	55
	15	**56**	**15**	**55**

6. DONATIONS AND ENDOWMENTS (consolidated and university)

	2020/21 £000	2019/20 £000
Unrestricted donations	466	339
	466	**339**

7. STAFF COSTS

	Consolidated		University	
	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000
Staff costs				
Wages and salaries	18,800	17,300	18,628	17,236
Social security costs	1,919	1,795	1,917	1,795
Movement on USS provision	(29)	(359)	(29)	(359)
Other pension costs	6,278	4,417	6,277	4,417
	26,968	**23,153**	**26,793**	**23,089**

Emoluments of the Principal and Vice-Chancellor

	2020/21 £000	2019/20 £000
Sir Paul Grice (from 1 October 2019)		
Salary	176	166
Employers' pension contributions	-	23
In lieu of employers' pension contribution	35	9
Total	211	198
Professor Richard Butt (Acting Principal, 1 August 2019 to 30 September 2019)		
Salary	-	23
Employers' pension contributions	-	5
Total	-	28

Sir Paul Grice participated in the Lothian Pension Fund scheme from 1 October 2019 until 30 April 2020. With effect from 1 May 2020, in accordance with the policy approved by the University Court, an adjustment was made to Sir Paul's salary equivalent to employers' pension contributions foregone. The head of the University's basic salary, including this adjustment, is 5.16 times the median pay of staff (2019/20 : 4.95 times), where the median pay is calculated on a full-time equivalent basis for the salaries paid by the University to its staff. Sir Paul accepted a 10% reduction in salary throughout the year to 31 July 2021 in recognition of the additional financial pressures faced by the University in relation to COVID-19

NOTES TO THE FINANCIAL STATEMENTS

7. **STAFF COSTS (continued)**

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 Senior Leadership Team. The total compensation for the year ended 31 July 2021 (including any employers' pension contributions) was £922,575 (year ended 31 July 2020, £916,919).

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. Other than the Chair, 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.

	2020/21	2019/20
	£000	£000
Directors' emoluments (including pension contributions)		
Fees for services as members of University Court	5	-
Emoluments (i.e. salaries as members of staff)	451	416
Contributions paid to pension schemes	55	75
Total	511	491

These figures relate to 8 members of staff, including the Principal (2019/20 : 7)

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

	2020/21 Number	2019/20 Number
Senior post holders		
£100,001 to £110,000	2	2
£120,001 to £130,000	1	1
£170,001 to £180,000	-	1
£210,001 to £220,000	1	-

No compensation payments were made to senior post holders in respect loss of office (2019/20: Nil).

Average full time equivalent (FTE) staff numbers by major category: *(Consolidated and university)*	2020/21 FTE number	2019/20 FTE number
Academic schools	202	182
Academic services	53	44
Research grants & contracts	31	37
Residences, catering & conferences	15	16
Premises	25	23
Administration & central services	114	108
	440	410

8. **INTEREST PAYABLE AND OTHER FINANCE COSTS**

	Consolidated		University	
	2020/21	2019/20	2020/21	2019/20
	£000	£000	£000	£000
Loan interest	1,090	1,187	1,090	1,187
Net charge on pension scheme	455	361	455	361
	1,545	**1,548**	**1,545**	**1,548**

NOTES TO THE FINANCIAL STATEMENTS

9. ANALYSIS OF TOTAL EXPENDITURE BY ACTIVITY

	Consolidated		University	
	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000
Academic schools	14,827	13,528	14,827	13,887
Academic services	4,351	4,271	4,351	4,271
Research grants & contracts	2,335	1,683	2,265	1,665
Other services rendered	495	680	79	507
Residences, catering and conferences	2,444	2,209	2,444	2,172
Premises	6,949	7,514	6,949	7,514
Administration & central services	8,832	9,657	8,815	9,284
Other expenses	5,649	1,374	5,649	1,374
Total per income and expenditure account	**45,882**	**40,916**	**45,379**	**40,674**

10. OTHER OPERATING EXPENSES

	Consolidated		University	
	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000
External auditors – audit fees	101	112	87	100
External auditors – non-audit fees	-	2	-	-
Internal audit	22	31	22	31
Grants to QMU Students' Union	261	252	261	252
Other expenses	11,914	10,504	11,600	10,340
	12,298	**10,901**	**11,970**	**10,723**

NOTES TO THE FINANCIAL STATEMENTS

11. **TANGIBLE ASSETS**
Consolidated and University

	Freehold land & Buildings	Fixtures, fittings & equipment	**TOTAL**
	£000	£000	£000
Cost or valuation:			
At 1 August 2020	127,148	11,901	139,049
Additions at cost	-	90	90
Revaluation of buildings	(4,412)	-	(4,412)
At 31 July 2021	122,736	11,991	134,727
Depreciation:			
At 1 August 2020	-	10,294	10,294
Written back due to revaluation	(4,267)	-	(4,267)
Provided during the year	4,267	804	5,071
At 31 July 2021	-	11,098	11,098
Net book amount at 31 July 2021	**122,736**	**893**	**123,629**
Net book amount at 1 August 2020	127,148	1,607	128,755
Analysis of net book amount at 31 July 2021			
Financed by capital grant	6,909	-	6,909
Other	115,827	893	116,720
	122,736	**893**	**123,629**

The heritable properties comprising Queen Margaret University's property estate were valued as at 31 July 2021 by an external valuer, Gerald Eve LLP, a regulated firm of Chartered Surveyors. The valuation was prepared in accordance with the requirements of the RICS Valuation - Global Standards 2020 and UK National Supplement, Financial Reporting Standard 102 and the 2019 Statement of Recommended Practice 'Accounting for Further and Higher Education'. The valuation was undertaken on a Fair Value basis, with specialised properties valued by reference to Depreciated Replacement Cost, and with non-specialised operational properties valued on a Fair Value basis equating to Market Value on the assumption of a continuation of the existing use. The valuation is reported under the special assumption to exclude any value of development opportunities for which planning permission would be required and has not been granted or where development has not yet commenced.

Barclays Bank plc holds a standard security, dated 17 December 2014, over the student accommodation situated on the University campus.

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 as it is not considered to be material.

NOTES TO THE FINANCIAL STATEMENTS

12. **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 2020 & 31 July 2021
			%	£
QMU Enterprises Ltd	Scotland	Ordinary £1 shares	100	100
				100

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

13. **TRADE AND OTHER RECEIVABLES**

Amounts falling due within one year:	Consolidated		University	
	2021 £000	2020 £000	2021 £000	2020 £000
Trade debtors	658	246	454	243
Prepayments and accrued income	1,097	2,276	1,086	2,276
Amounts due from subsidiary company	-	-	243	463
	1,755	**2,522**	**1,783**	**2,982**

14. **CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	Consolidated		University	
	2021 £000	2020 £000	2021 £000	2020 £000
Secured loans (see note 15)	1,343	1,492	1,343	1,492
Trade creditors	1,220	1,197	1,206	1,192
Social security and other taxation payable	587	494	587	494
Accruals and deferred income	6,438	4,058	6,253	4,003
Unsecured loans	186	31	186	31
	9,774	**7,272**	**9,575**	**7,212**

During the year to 31 July 2021, an additional loan of £2.834 million was taken out from the Scottish Funding Council under the Financial Transactions scheme. This loan is unsecured, and is repayable in equal quarterly instalments over the period to 31 March 2040. The additional loan was utilised to make a partial repayment of the secured loan from Barclays Bank plc.

The secured long-term loan facility with Barclays Bank plc is £24.836 million, and has a final maturity date of 17 December 2024. The university intends to enter into discussions to refinance the element of the loan which will remain outstanding in December 2024. The loan is secured over part of 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.

NOTES TO THE FINANCIAL STATEMENTS

15. **CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	Consolidated and University	
	2021	2020
	£000	£000
Secured loans (see note 14)	23,493	27,595
Unsecured loans	2,702	98
Deferred capital grants	6,909	7,558
	33,104	**35,251**
Analysis of secured loans:-		
Due between one and two years	1,343	1,492
Due between two and five years	22,150	26,103
Due in five years or more	-	-
Total due after more than one year	23,493	27,595
Due within one year (note 14)	1,343	1,492
Total secured loans	**24,836**	**29,087**
Analysis of unsecured loans:-		
Due between one and two years	168	31
Due between two and five years	493	67
Due in five years or more	2,041	-
Total due after more than one year	2,702	98
Due within one year (note 14)	186	31
Total unsecured loans	**2,888**	**129**

The analysis of secured loan balances as at 31 July 2020 has been restated from the position reported in the financial statements for the year to 31 July 2020. This reflects the position that the secured loan from Barclays is repayable in full on 17 December 2024. The loan is therefore shown as being fully repayable within five years from the date of the 2020 financial statements. It is the University's intention that a significant proportion of this loan will be refinanced at the repayment date.

Analysis of deferred capital grants

Buildings	Consolidated and University	
	2021 £'000	2020 £'000
Opening balance	7,558	8,207
Released during the year	(649)	(649)
Closing balance	**6,909**	**7,558**

NOTES TO THE FINANCIAL STATEMENTS

16. PROVISIONS FOR LIABILITIES
Consolidated and University

Pensions
£'000

	Obligation to fund deficit on USS Pension	Pension enhancements	Defined benefit obligations LGPS	Total pensions provisions
	£'000	**£'000**	**£'000**	**£'000**
At 1 August 2020	743	2,846	30,984	**34,573**
Utilised in year	(34)	(208)	-	**(242)**
Transfer (to)/from income & expenditure account	10	(34)	(9,894)	**(9,918)**
At 31 July 2021	**719**	**2,604**	**21,090**	**24,413**

The University 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. The University has assessed future staff levels within the USS scheme and salary inflation over the period of the contractual obligation in assessing the value of this provision. Further information is provided in note 20(C).

The University also 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 2021, 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.

Detail of the movement in the Local Government Pension Scheme (LGPS) provision is set out in note 20(A).

17. ENDOWMENT RESERVES
Consolidated and University

	Restricted Expendable £000	Restricted Permanent £000	Restricted Total £000
Balance at 1 August 2020	774	47	821
Income for year	466	-	466
Expenditure for year	(239)	-	(239)
At 31 July 2021	**1,001**	**47**	**1,048**
Represented by:			
Capital value	-	35	35
Accumulated income	1,001	12	1,013
	1,001	**47**	**1,048**

NOTES TO THE FINANCIAL STATEMENTS

18. REVALUATION RESERVE

	Consolidated and University	
	2021	2020
	£000	£000
At 1 August	66,580	61,412
Revaluation (losses) /gains	(145)	5,168
Release to general reserve	-	-
At 31 July	**66,435**	**66,580**

19. CONSOLIDATED RECONCILIATION OF NET DEBT

Consolidated and University

	£000
Net debt at 1 August 2020	20,444
Increase in cash and bank balances	(6,835)
Secured loans repaid	(4,251)
Unsecured loans taken out	2,834
Unsecured loans repaid	(75)
Net debt at 31 July 2021	**12,117**

Analysis of net debt

	Consolidated and University	
	2021	2020
	£000	£000
Cash at bank and in hand	(15,607)	(8,772)
Borrowings : amounts falling due within one year		
Secured loans	1,343	1,492
Unsecured loans	186	31
	1,529	1,523
Borrowings : amounts falling due after more than one year		
Secured loans	23,493	27,595
Unsecured loans	2,702	98
	26,195	27,693
Net debt as at 31 July	**12,117**	**20,444**

NOTES TO THE FINANCIAL STATEMENTS

20. PENSIONS AND SIMILAR OBLIGATIONS

The University's employees belong to three principal pension schemes, the Scottish Teachers Pension Scheme (STPS), the Local Government Pension Scheme (LGPS) and the Universities Superannuation Scheme (USS). The total pension cost for the year was £6,249,000 (2019/20: £4,058,000).

	Consolidated and University	
	Year ended 31 July 2021	**Year ended 31 July 2020**
The total pension charge is analysed as follows:-	**£000**	**£000**
Lothian Pension Fund (LGPS)	3,860	2,243
Scottish Teachers' Pension Scheme	2,059	1,823
Universities Superannuation Scheme	330	(8)
	6,249	**4,058**

Estimated employers' pension contributions for the year to 31 July 2022 are £4,336,000. Actual employers' pension contributions in the year to 31 July 2021 were £3,811,000.

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 2020 updated to 31 July 2021 by a qualified independent actuary, Hymans Robertson LLP.

Assumptions at	**31 July 2021**	**31 July 2020**	**31 July 2019**
Pension increase rate	2.85%	2.20%	2.40%
Salary increase rate	3.35%	3.90%	4.10%
Discount rate	1.60%	1.40%	2.10%

The fund is valued every three years by professionally qualified independent actuaries using the projected unit credit 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 20.4%.

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

	31 July 2021 No. of years	**31 July 2020 No. of years**
Current pensioners		
Males	20.5	21.7
Females	23.3	24.3
Future pensioners		
Males	21.9	24.7
Females	25.2	27.5

NOTES TO THE FINANCIAL STATEMENTS

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

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

Analysis of the amount shown in the balance sheet

	Value at 31 July 2021 £000	Value at 31 July 2020 £000	Value at 31 July 2019 £000	Value at 31 July 2018 £000	Value at 31 July 2017 £000
Estimated employer assets (A)	69,844	60,469	63,223	57,343	57,322
Present value of scheme liabilities	(90,361)	(90,773)	(77,851)	(62,495)	(68,492)
Present value of unfunded liabilities	(573)	(680)	(697)	(671)	(701)
Total value of liabilities (B)	**(90,934)**	**(91,453)**	**(78,548)**	**(63,166)**	**(69,193)**
Net pension liability (A) – (B)	**(21,090)**	**(30,984)**	**(15,325)**	**(5,823)**	**(11,871)**

Analysis of movements in the present value of the scheme liabilities

	31 July 2021 £000	31 July 2020 £000
Opening defined benefit obligation	**91,453**	**78,548**
Current service cost	3,837	3,018
Interest cost on defined benefit obligation	1,298	1,672
Contributions by members	453	429
Actuarial losses / (gains)	(4,491)	9,071
Past service costs	-	21
Unfunded benefits paid	(43)	(47)
Benefits paid	(1,573)	(1,259)
Closing defined benefit obligation	**90,934**	**91,453**

Analysis of movement in the market value of the scheme assets

	31 July 2021 £000	31 July 2020 £000
Opening fair value of employer assets	**60,469**	**63,223**
Expected return on assets	8,696	(4,652)
Other experience	(444)	-
Contributions by members	453	429
Contributions by employer	1,395	1,394
Contributions in respect of unfunded benefits	43	47
Interest income on plan assets	848	1,334
Unfunded benefits paid	(43)	(47)
Benefits paid	(1,573)	(1,259)
Closing fair value of employer assets	**69,844**	**60,469**

The significant reduction in the net pension liability at 31 July 2021 compared with the position at 31 July 2020 is due mainly to an increase in asset values during the year, following the significant asset losses experienced in the first half of 2020 due largely to COVID-19 and reflected in the asset valuation at 31 July 2020.

NOTES TO THE FINANCIAL STATEMENTS

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

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

Guaranteed minimum pension (GMP) was accrued by members of the Local Government Pension Scheme (LGPS) between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number of reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. However overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the Second State Pension. The introduction of the new Single State Pension in April 2016 disrupted this arrangement and brought uncertainty over the ongoing indexation of GMPs, which could lead to inequalities between men and women's benefits. As an interim solution to avoid this problem, GMP rules were changed so that the responsibility for ensuring GMPs kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age between 6 April 2016 and 5 April 2021. This new responsibility led to increased costs for schemes (including the LGPS) and hence for scheme employers. An allowance for full GMP indexation was included within the 31 March 2020 funding valuation position and therefore the allowance is automatically included within the balance sheet figure at 31 July 2021. It is anticipated that a further ruling relating to historical transfers is unlikely to be significant in terms of impact on the University's pension obligations. As a result, no allowance has been made for this within the calculation of the level of provision at 31 July 2021.

In April 2015, wholesale changes were made to the Local Government Pension Scheme in Scotland to reform the scheme's benefits structure. These changes were implemented as part of wider reforms to public sector pensions introduced by the UK Government's Public Service Pensions Act 2013. In the LGPS, these changes included moving benefit accrual from a final salary to a career average basis, and linking members' normal retirement age to their state pension age. Transitional provisions were introduced for members who were within 10 years of normal retirement age in 2012. These transitional protection arrangements applied across public service pension schemes where older members were permitted to remain in their pre-2015 schemes. In the LGPS all members were moved onto the new arrangements from 1 April 2015. However those within 10 years of their normal pension age on 1 April 2012 were protected through a statutory 'underpin'. This underpin protection provides that additional checks are undertaken for qualifying members to ensure that the career average pension payable under the reformed LGPS is at least at high as the member would have been entitled to receive under the final salary scheme. Where it is not as high, scheme regulations provide that an addition must be applied to the member's career average pension to make up the shortfall. In the 'McCloud' and 'Sargeant' court cases (which related to the judicial and firefighters' pension schemes respectively), the Court of Appeal found that the transitional protection arrangements directly discriminated against younger members in those schemes. In July 2019, the UK government confirmed its view that these rulings had implications for all the main public service pension schemes, including the LGPS, and that the discrimination would require to be addressed in all the relevant schemes, regardless of whether members had lodged a legal claim. An allowance for the estimated impact of the McCloud judgement was included within the 31 March 2020 funding valuation position. The impact was calculated based on the eligibility criteria of being included within the proposed solution for the McCloud judgement (i.e. any active member who was a participant in the Fund as at 1 April 2012 will be given the greater of the final salary pension or CARE pension upon retirement). The McCloud allowance will therefore automatically be included within the 31 July 2021 balance sheet provision.

B) Scottish Teachers' Pension Scheme (STPS)

The Scottish Teachers' Pension Scheme is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and from those current employees who are members of the scheme and who pay contributions at progressively higher marginal rates based on pensionable pay, as specified in the regulations. The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary. The last four-yearly valuation was undertaken as at 31 March 2016. This valuation used the Projected Unit Methodology, and was carried out in accordance with the Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014 (as amended). The valuation informed an increase in the employer contribution rate from 17.2% to 23.0% of pensionable pay from September 2019 and an anticipated yield of 9.4% from employee contributions. The notional fund at 31 March 2016 amounted to £21.5 billion, and total scheme liabilities for service amounted to £22.8 billion, giving a notional past service deficit of £1.3 billion, which is being repaid by a supplementary rate of 4.3% of employers' pension contributions over a 15-year period from 1 April 2019. This contribution is included in the 23.0% employers' contribution rate. As the scheme is unfunded there can be no deficit or surplus to distribute on the wind-up of the scheme or withdrawal from the scheme.

NOTES TO THE FINANCIAL STATEMENTS

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

B) Scottish Teachers' Pension Scheme (STPS) (continued)

While a valuation was carried out as at 31 March 2016, it is not possible to say what deficit or surplus may affect future contributions. Work on the most recent valuation was suspended by the UK Government pending the decision from the Court of Appeal (McCloud (Judiciary scheme)/Sargeant (Firefighters' Scheme) cases, that held that the transitional protections provided as part of the 2015 reforms unlawfully discriminated on the grounds of age. Following consultation and an announcement in February 2021 on proposals to remedy the discrimination, the UK Government confirmed that the cost control element of the 2016 valuations could be completed. The UK Government has also asked the Government Actuary to review whether, and to what extent, the cost control mechanism is meeting its original objectives. The 2020 actuarial valuations will take the report's findings into account. The interim report is complete (restricted) and is currently being finalised with a consultation. Alongside these announcements, the UK Government confirmed that current employer contribution rates would stay in force until 1 April 2024.

The scheme is an unfunded multi-employer defined benefit 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.

C) Universities Superannuation Scheme (USS)

The University participates in the Universities Superannuation Scheme, which is a hybrid pension scheme, providing defined benefits (for all members), as well as defined contribution benefits. The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the scheme's assets are not attributed to individual institutions and a scheme-wide contribution rate is set. The University is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. As required by Section 28 of FRS 102 "Employee benefits", the University therefore accounts for the scheme as if it were a wholly defined contribution scheme. As a result, the amount charged to the consolidated Statement of Comprehensive Income and Expenditure represents the contributions payable to the scheme in respect of the accounting period.

The University has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit). In accordance with the requirements of the SORP, the University recognises a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit), and therefore an expense is recognised. The latest available complete actuarial valuation of the Retirement Income Builder is at 31 March 2018 (the valuation date), which was carried out using the projected unit method. A valuation as at 31 March 2020 was underway but had not been completed at 31 July 2021. The 2020 valuation was signed and filed with The Pensions Regulator with an effective date of 1 October 2021. Further details relating to the 2020 valuation are set out in note 21 below. Since the University cannot identify its share of the assets and liabilities in the Retirement Income Builder section of the scheme, the following disclosures reflect those relevant for the section as a whole.

The 2018 valuation was the fifth valuation for the scheme 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 £63.7 billion and the value of the scheme's technical provisions was £67.3 billion indicating a shortfall of £3.6 billion and a funding ratio of 95%.

The key financial assumptions used in the 2018 valuation are described below.

Pension increases (CPI)	Term dependent rates in line with the difference between the Fixed Interest and Index Linked yield curves, less 1.3% p.a.
Discount rate (forward rates)	Years 1-10: CPI + 0.14% reducing linearly to CPI – 0.73% Years 11-20: CPI + 2.52% reducing linearly to CPI + 1.55 by year 21 Years 21 +: CPI + 1.55%

NOTES TO THE FINANCIAL STATEMENTS

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

C) Universities Superannuation Scheme (USS) (continued)

The main demographic assumption used relates to the mortality assumptions. The assumptions are based on analysis of the scheme's experience carried out as part of the 2018 actuarial valuation. The mortality assumptions used in these figures are as follows:-

Mortality base table	**Pre-retirement**: 71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females **Post retirement**: 97.6% of SAPS S1NMA "light" for males and 102.7% of RFV00 for females
Future improvements to mortality	CMI_2017 with a smoothing parameter of 8.5 and a long term improvement rate of 1.8% p.a. for males and 1.6% p.a. for females

The current life expectancies on retirement at age 65 are:

	2021	2020
Males currently aged 65 (years)	24.6	24.4
Females currently aged 65 (years)	26.1	25.9
Males currently aged 45 (years)	26.6	26.3
Females currently aged 45 (years)	27.9	27.7

A new deficit recovery plan was put in place as part of the 2018 valuation, which requires payment of 2% of salaries over the period 1 October 2019 to 30 September 2021 at which point the rate will increase to 6%. The 2021 deficit recovery liability reflects this plan. The liability figures have been produced using the following assumptions:

	2021	2020
Discount rate	0.87%	0.73%
Pension increases (CPI)	2.00%	2.00%

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 2021 on the basis of valuation prescribed by FRS 102. The total provision in respect of this liability is £2.604 million (2020: £2.846 million).

21. **POST BALANCE SHEET EVENT**

At the year end date, a further full valuation of the Universities Superannuation Scheme (USS), as at 31 March 2020, was underway. Work was still to be done agreeing the technical provisions assumptions, the extent of future investment risk, the duration of the deficit period and the level of deficit contributions. Rule changes in respect of strengthening the employer covenant were also in progress including restrictions on employer exits, debt monitoring and pari passu arrangements. The valuation did not meet its statutory deadline of 30 June 2021.

A new Schedule of Contributions based on the March 2020 actuarial valuation was agreed in September 2021. The valuation revealed a shortfall in assets, when measured against the Scheme's technical provisions. The size of the shortfall is dependent on whether the anticipated benefit structure reforms and covenant support measures are implemented by 28 February 2022. If this takes place, the shortfall as at 31 March 2020 is £14.1 billion. If no Benefit Change Deed is entered into, the reduced level of covenant support results in an increase to the technical provisions and the shortfall as at 31 March 2020 is £18.4 billion. This represents a significant deterioration from the £3.6 billion deficit established under the 2018 valuation.

A new deficit recovery plan has been agreed which amends the existing deficit recovery plan set out in the 2018 valuation. Under the new plan, deficit recovery contributions cease from 1 October 2021 and recommence 1 April 2022 at 6.3% of salaries payable for the length of the recovery plan until 31 March 2038. This assumes the Benefit Change Deed is entered into by 28 February 2022. If no Benefit Change Deed is entered into by 28 February 2022, the new plan requires deficit recovery contributions from 1 October 2022 to commence at 3% of salaries then increase every six months by 3% until they reach 20% of salaries at 1 October 2025. They will then remain at this level until 31 July 2032.

NOTES TO THE FINANCIAL STATEMENTS

21. POST BALANCE SHEET EVENT (continued)

As the 2020 Valuation effective date occurred after 31 July 2021 but before these financial statements were approved by the University Court, the 2020 Valuation constitutes a non-adjusting post balance sheet event. This means that the deficit recovery provision at year end has been based on the 2018 Valuation, which was binding at the year-end date. The impact of the revised DRCs arising from the 2020 valuation would have been to increase the required level of provision at 31 July 2021 from £0.719 million by £1.244 million, to an amount of £1.963 million.

22. FINANCIAL INSTRUMENTS

The University applies the provisions of Sections 11 and 12 of FRS 102 in full. The University's financial assets and liabilities all meet the criteria for basic financial instruments prescribed within FRS 102 – Section 11.8.

23. RELATED PARTY TRANSACTIONS

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.

24. HARDSHIP AND CHILDCARE FUNDS

	2020/21 £000	2019/20 £000
HARDSHIP FUND (undergraduate and postgraduate)		
Balance at 1 August	-	-
Amounts received from Student Awards Agency for Scotland	664	261
Amount vired (to) /from Childcare Fund	79	53
	743	314
Disbursed to students	(416)	(313)
Other costs	-	(1)
Refunded to Student Awards Agency for Scotland	-	
Balance unspent at 31 July	327	-
CHILDCARE FUND		
Balance at 1 August	-	-
Amounts received from Student Awards Agency for Scotland	144	149
	144	149
Disbursed to students	(65)	(96)
Amount vired (to) / from Hardship Fund	(79)	(53)
Refunded to Student Awards Agency for Scotland	-	-
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 Statement of Comprehensive Income and Expenditure. An amount of £327,000 was received in 2020/21 but relates to financial year 2021/22, and therefore remained unspent at 31 July 2021.