



Queen Margaret University
EDINBURGH

Statement of Accounts

FOR THE YEAR ENDED 31st July 2014

Registered No. SC007335
Scottish Charity No. SC002750



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PRINCIPAL'S REPORT for the year ended 31 July 2014



During this financial year we continued to achieve, and in many cases surpass, targets in our current strategic plan. Alongside this, we strengthened our position in our flagship areas of expertise in health and rehabilitation, creativity and culture and sustainable business. At the same time, we looked ahead to the shape of the University in the year 2025, through our strategic planning exercise, QM150.

In learning and teaching, we saw further increases in our National Student Survey (NSS) scores this year, reflecting our culture of continuous improvement. NSS scores for overall satisfaction with QMU have increased by 8% since we joined the NSS in 2011. We are placed 1st or 2nd in Scotland in a number of disciplines and rank above the Scottish and UK averages across every question in the Personal Development section of the survey. As part of our work to address social and economic priorities of Scotland we launched two new postgraduate programmes in 2013/14: Gastronomy, and Culture and Creative Enterprise. These programmes have attracted high calibre applicants and were fully subscribed in their first year. Alongside this, we have been planning a new postgraduate course in Dispute Resolution and new undergraduate courses in Nutrition and Food Science, and in Physical Activity, Health and Wellbeing.

The number of students participating in our acclaimed Academies programme has now grown from 34 young people from three East Lothian schools, to 450 pupils from over 50 schools in Edinburgh, East and Midlothian and the Scottish Borders. This project has captured the imagination of policy-makers and has won the Times Educational Supplement's award for widening participation in higher education. Also as part of our commitment to encourage wider participation in higher education by engaging with school pupils as early as possible, we launched our Children's University project this year. We are the first institution in the East of Scotland to host the Children's University and already around 500 children aged between 7 and 14 are engaged in the scheme, which aims to broaden their horizons and increase their aspirations. Another strand of our widening participation work is our Associate Students programme, which we have now extended to additional partners, West Lothian College and Newbattle Abbey College, and also opened out to additional subject areas. In terms of our international reach, 21% of our student population comes from outside the UK and the EU, from 79 countries in total. We continue to build on the portfolio of programmes that we offer with our partner organisations in countries including Greece, India, Nepal, Saudi Arabia and Singapore.

Research and knowledge exchange is an intrinsic part of our mission. As well as making a direct impact on pressing issues facing society, this work informs our teaching, enhancing the student experience, and creates career development opportunities, thus enabling us to attract and retain the very best staff. This year we completed our submission to the Research Excellence Framework (REF), the new system for assessing the quality of research in UK universities. As well as providing us with the opportunity to document and share recent successes, this exercise has helped shape our thinking on the focus of our future research strategy. Alongside

this, we attracted a number of important research contracts in the course of the year. For example, the Scottish Refugee Council commissioned staff in our Institute of International Health and Development to conduct research associated with improving the way new refugees in Scotland are able to access services and progress towards integration. Another example is a successful bid to the Arts and Humanities Research Council (AHRC) for work drawing on our expertise in using technology to assess, treat and record speech.

In knowledge exchange, achievement of critical mass in our work in food and drink has enabled us to invest around £0.5m in facilities for our new Scottish Centre for Food Development and Innovation. Through this centre we will be able to increase the volume and range of services that we offer to small and medium-sized food and drink providers and to expand our work to include large national and international businesses. In other areas of activity, a growing number of businesses are choosing to work with the university on projects ranging from tourism strategy to cutting-edge film work. At the same time, colleagues in our Consumer Insight Centre continue to expand their research and knowledge exchange work on complaints handling and dispute resolution, with demand high from organisations around the world.

We know that an appropriate infrastructure is fundamental to success, and this year we created a new separate division of Nursing, underlining our commitment to that subject. We are confident that our professional services team is now structured in a way to optimise effective support for our academic activities, and this year our finance team was shortlisted for two national awards based on the effectiveness of their service. We continue to enhance our procedures and in 13/14 we invested in business information, website and HR systems projects to streamline our processes, reduce bureaucracy and meet user needs better. This year also saw us move up the rankings in university league tables. We climbed 10 places year on year in the Complete University Guide league table and 12 places in the Guardian University Guide.

Throughout 2013/14 staff throughout the University contributed to QM150, helping to develop the vision, mission, principles and values that will inform our strategic plan covering the period running up to 2025, when the institution will celebrate its 150th anniversary. During the next academic year we look forward to shaping up our strategy for 2015-2025, based on the foundations laid through our QM150 project, whilst also ensuring continued success in learning and teaching, research and knowledge exchange and community engagement.

Professor Petra Wend
Principal and Vice-Chancellor

OPERATING AND FINANCIAL REVIEW, INCORPORATING THE STRATEGIC REPORT

Status

Queen Margaret University, Edinburgh is an autonomous Scottish higher education institution and is registered under the Companies Acts as a company limited by guarantee. 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 14 to 40 comprise the consolidated results of the University and its subsidiary company, QMU Enterprises Limited, and also include the results of Queen Margaret Student Solutions ("QMSS"). 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 halls of residence. QMU Enterprises Limited generated a profit of £305,000 (2012/13 : £146,000), which was passed to the University under deed of covenant. QMSS is a company limited by guarantee in which the University has a one-third interest. The company operates and maintains the University's halls of residence. The results of QMSS are fully consolidated in the financial statements, and the element of surplus or deficit attributable to the other two partners is shown as an adjustment in the Income and Expenditure Account.

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

Results for the year

The Group's consolidated results for the year to 31 July 2014 are summarised as follows:-

	2013/14	2012/13
	£million	£million
Total income	35.0	34.8
Total expenditure	(35.5)	(33.4)
Minority interest (QMSS)	0.7	0.8
Release from revaluation reserve	0.1	-
Historical cost surplus for the year	0.3	2.2

Income and expenditure for the year

The main changes in the outturn position compared to 2013/14 were:-

- An increase of £0.7 million in grant income from the Scottish Funding Council; and
- An increase of £2.2 million in staff costs, reflecting investment in additional posts in key strategic areas;

Development of strategic plan and performance indicators

During the year the University has made further significant progress in implementing its strategic plan. This involves focussing on three academic flagship areas, in health and rehabilitation, sustainable business, and culture and creativity. The plan supports the University's vision, to be known for economic and social relevance through the "four i's" : inter-professional education, inter-disciplinary working and research, industry-relevant education and research and an international approach to students, curriculum and research. A key element of the plan, which sets out the planned development of the University through to 2015, is the development of key performance indicators which the University Court uses to monitor progress towards the achievement of the objectives set out in the plan (both financial and non-financial). The plan also sets out the processes employed to manage the risks which might inhibit this achievement. In May 2013, the

University launched a project to develop a new strategic plan to take it from 2015 through to 2025, which will be the 150th anniversary of the founding of the institution. The project has therefore been given the title "QM150". A wide consultation process, involving staff, students and other stakeholders, has taken place throughout 2013/14. The outputs from this consultation will be used by the Court and the senior management team to set the new vision and strategic direction for the University, with a view to having the new 10-year strategic plan in place during 2015.

Cash flows and liquidity

The surplus for the year, adjusted for the effect of non-cash items and interest, resulted in a cash inflow of £4.9 million on operating activities (2012/13, £6.2 million inflow). Cash balances at 31 July 2014 of £12.8 million (2013: £10.9 million) represented 131 days' expenditure (2013 : 119 days).

Borrowings

Borrowings at 31 July 2014 amounted to £56.5 million, relating entirely to secured loans taken out to fund the campus development at Craighall. That figure is analysed in the following table:

	31 July 2014	31 July 2013
	£million	£million
Barclays Bank plc – loan for main campus development	14.4	14.8
Lloyds Banking Group – loan for development of student residences	42.1	41.8
Total	56.5	56.6

The net residual loan being serviced by the University in relation to the main campus development amounted to £14.4 million at 31 July 2014. In relation to part of this loan, the University has entered into a fixed-rate arrangement in order to protect itself against any significant fluctuations in interest rates.

In addition, a loan of £42.1 million was undertaken by QMSS in connection with the development of the student residences at the Craighall campus. This loan will be serviced out of the rental income generated through the occupancy of the residences, in accordance with the 35 year model. On 4 November 2011, Lloyds Banking Group issued a reservation of rights letter to Queen Margaret Student Solutions (QMSS) in respect of a breach of the loan-to-value financial covenant contained in the loan facility agreement. Further details are set out in note 27 to the financial statements. As a result this loan is shown as being fully repayable within one year.

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 admittance to the University, we are committed to the principles of fairness, transparency, and widening participation. We offer a range of recruitment, outreach, pre and post entry activities to raise aspiration, encourage access and maximise retention from under-represented groups in line with our Student Experience strategy, and underpinned by the University's Outcome Agreement with the Scottish Funding Council.

Graduates into employment

Many of the University's educational programmes are vocationally oriented and those that are less professionally specific incorporate an emphasis upon transferable skills. Both of these features contribute to QMU demonstrating a successful graduate employment rate, whereby within six months of receiving their award, over 93% of our students have either entered employment or continued with further study.

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 2014, trade creditors represented 59 days of relevant expenditure (2013: 42 days). Interest paid under the Late Payment of Commercial Debts (Interest) Act 1998 was £nil (2012/13 : £nil).

Employee involvement

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

Student involvement

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

Environmental issues

The University has one of the "greenest" campuses in the UK, which received a BREEAM "excellent" rating. Sustainability remains at the heart of the University's activities, which has been recognised through a number of green awards, including coming joint first in Scotland in the People & Planet Green League 2013.

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.

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 2014. 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. In accordance with Financial Reporting Standard 17 (FRS17) on Retirement Benefits, the University's share of the fund deficit, as calculated by the scheme actuary, has been shown as a liability at 31 July 2014.

The most recent actuarial review of the Scottish Teachers' Superannuation Scheme (STSS) was undertaken as at 31 March 2009. As a result of this review, the level of employers' contribution to this scheme was set at 14.9% with effect from 1 April 2009. The results of the 2009 valuation were rolled forward to 31 March 2013. As the scheme is unfunded, there can be no surplus or shortfall. Pension contribution rates are set by the scheme actuary to meet the cost of pensions as they accrue.

The Universities Superannuation Scheme (USS) is a defined benefit scheme. The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The University is therefore exposed to actuarial risks associated with other institutions' employees and is therefore unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Income & Expenditure account represents the contributions paid to the scheme in respect of the accounting period. The most recent actuarial review of the Universities' Superannuation Scheme (USS) was undertaken as at 31 March 2011, which resulted in a deficit of £2.9 billion. As a result of this review, the level of employers' contributions remained at 16%.

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:-

- Grant support 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.
- Pressure on staff costs continues to build, both in terms of pay awards (where the University continues to participate in the UK-wide national negotiating framework) and also in terms of the cost of employers' National Insurance contributions and the costs of pension provision.

The identification and management of risks is firmly embedded within the University's structure and processes. The institutional corporate risk register is formally reviewed by the Executive Board and the Audit Committee as well as being discussed by the University Court. The Court also undertakes 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.

Looking forward – financial objectives

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, information & estates and financial strategies are closely aligned. Achievement of the objectives set out in the strategic plan will allow the University to continue to generate a modest level of surplus in the short- to medium term. The Court carries out regular monitoring of the University's financial sustainability, in line with the methodology (and using the key performance indicators) recommended by the Higher Education Financial Sustainability Strategy Group.

The long term financial health of the institution will continue to depend upon its ability to grow and diversify its income base and to control costs. Work continues on developing further new sources of income with a view to ensuring that the University achieves its objective of long-term sustainability.

Disclosure of information to auditors

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

MEMBERSHIP OF THE UNIVERSITY COURT

Name		Attendance record	
Keir Bloomer, FRSE (Chair)	Appointed 12 March 2007	5/5	Former Chief Executive, Clackmannanshire Council
The Honourable Mark Laing (Vice-Chair)	Appointed 1 October 2009	5/5	Managing Director, Nairn's Oatcakes Limited
Fergus Boden	Appointed 10 June 2013	5/5	Student President
James Bradshaw	Appointed 1 May 2010	4/5	Former Deputy Vice-Chancellor (Resources & Business Development), University of Sunderland
Robin Burley, MBE	Appointed 1 July 2008; Retired 30 June 2014	5/5	Partner in Eskhill & Co (Consultants) Former Executive, Edinvar Housing Association
Professor Graham Caie	Appointed 1 December 2014	0/0	Former Chair, National Library of Scotland Governance Committee, Vice President of the Royal Society of Edinburgh
Ian Calder	Appointed 1 March 2011	5/5	Former Director, Grant Thornton LLP
Craig Cathcart	Appointed 8 February 2011	5/5	Staff Member, Appointed by Senate
Professor Robert Cormack, FRSE	Appointed 1 September 2010	2/5	Former Principal, UHI Millennium Institute
Johnathan Elmer	Appointed 10 June 2013	5/5	Student Vice-President
Dr Anthony Falconer, OBE	Appointed 1 October 2013	3/5	Retired Consultant Obstetrician and Gynaecologist – Plymouth Hospitals NHS Trust; Former President Royal College of Obstetricians and Gynaecologists.
Professor Alan Gilloran	Appointed 1 January 2010	4/5	Deputy Principal <i>Ex Officio</i>
Dr Anna Gregor, CBE	Appointed 1 November 2010	5/5	Retired Associate Medical Director, NHS Lothian
Dr Lindsay Irvine	Appointed 1 December 2013	4/4	Elected Academic Staff member
Roger Knox	Appointed 1 July 2008; Retired 30 June 2014	4/5	Former Deputy Provost, East Lothian Council
Brian Leggat	Appointed 1 October 2009	3/5	Retired Solicitor
Jacqueline Macdonald	Appointed 1 October 2013	4/5	Partner, Small Green Spaces
Miller McLean	Appointed 1 January 2011	5/5	Chairman, Adam & Co Group plc, Retired Group Secretary, Royal Bank of Scotland
Ian McMillan	Appointed 1 December 2010; Demitted office 30 November 2013	1/1	Elected Academic Staff Member
Margaret McPhail	Appointed 1 December 2008	5/5	Former Business Transformation Director, Standard Life plc
Linda McPherson	Appointed 1 October 2014	0/0	Former Senior Director - Food and Drink, Tourism & Textile, Scottish Enterprise
Margaret O'Connor	Appointed 1 October 2014	0/0	Service Manager - Adult Wellbeing Resources, East Lothian Council
Robert Rae	Appointed 1 March 2011	4/5	Former Chairman, Midlothian & East Lothian Chamber of Commerce
Judith Sischy, OBE	Appointed 1 September 2010	5/5	Former Chief Executive, Scottish Council of Independent Schools
Professor Petra Wend	Appointed 1 September 2009	5/5	Principal & Vice-Chancellor <i>Ex Officio</i>
Sheila Williams	Appointed 12 April 2013	5/5	Elected Support Staff Member
Olga Wojtas	Appointed 1 June 2009	5/5	Retired Editor, Times Higher Education Scotland

MEMBERSHIP OF THE UNIVERSITY COURT (continued)

Membership of Court Committees during the year to 31 July 2014

Audit Committee

Name		Attendance record
Margaret McPhail	Convener	4/4
Roger Knox	Retired 30 June 2014	4/4
Miller McLean		3/4
Robert Rae	Appointed from 1 July 2014	0/0
Judith Sischy		4/4

Finance & Estates Committee

Name		Attendance record
James Bradshaw	Convener	4/4
Robin Burley	Retired 30 June 2014	4/4
Ian Calder		3/4
Professor Alan Gilloran		2/4
Brian Leggat		3/4
Professor Petra Wend		4/4

Nominations Committee

Name		Attendance record
Keir Bloomer	Convener	1/1
Fergus Boden	Appointed from 2 April 2014	1/1
Professor Robert Cormack	Appointed from 25 June 2014	0/0
Mark Laing		1/1
Professor Petra Wend		1/1
Sheila Williams	Appointed from 2 April 2014	1/1
Olga Wojtas		1/1

Senior Management Remuneration Committee

Name		Attendance record
Mark Laing	Convener	2/2
Keir Bloomer		2/2
James Bradshaw		2/2
Brian Leggat		2/2

On behalf of the University Court

Keir Bloomer
Chairman
3 December 2014

Statement of Accounts 2014

CORPORATE GOVERNANCE STATEMENT

Summary of the University's Structure of Corporate Governance

The University is committed to exhibiting 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 benchmarked its practice fully against the Scottish Code of Good Higher Education Guidance published in July 2013. The purpose of this summary is to help the reader of the financial statements 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 2014. The Court also considers that the University is compliant with the main principles of the Scottish Code of Good Higher Education Guidance and observes the supporting guidelines.

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

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

The full Statement of Primary Responsibilities can be found as part of the Court Member Handbook on the University website: www.qmu.ac.uk/court/publications

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

The University Court is satisfied that there is an ongoing process for identifying, evaluating and managing the University's significant

risks, which has been in place throughout the year ended 31 July 2014 and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the University Court, and accords with the Turnbull guidance, as applicable to the higher education sector. The University has in place a business continuity management and policy framework for the whole organisation. In addition, each of the key areas within the institution, including the Executive Board, has in place local procedures detailing action to be taken in response to a potential or actual disaster. Risk management is a standing item on the agenda of the Executive Board and the Audit Committee, and regular reports are made to the University Court.

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

To assist members in the performance of their duties, members of the University Court were offered, and attended, several training and development opportunities during 2013/14. These included external training sessions, discrete development and planning Away days, as well as presentations on strategic themes relevant to the work of the University at each Court meeting. Training and development opportunities offered to Court members in 2013/14 included:

- Public Sector Good Governance (Mackay Hannah, October 2013)
- Being an Effective Governor (Leadership Foundation for Higher Education, October 2013)
- Being an Effective Student Governor (Leadership Foundation for Higher Education, September 2013)
- Stay Tuned – Higher Education Update and Briefing (Deloitte, June 2014)
- Keynote Speech at CUC Plenary (Committee of University Chairs, April 2014)
- Court Away Days (5 and 6 February 2014)

New members also received formal induction supported by a Court Members Handbook, which was issued to all members in draft form in April 2014 (published October 2014).

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

CORPORATE GOVERNANCE STATEMENT (continued)

The Audit Committee meets at least three times annually to discuss audit, risk and control issues, with the University's external and internal auditors in attendance as appropriate. The Committee considers detailed internal audit reports and recommendations for the improvement of the University's systems of internal control, together with management's responses and implementation plans. It also receives and considers reports from the Scottish Funding Council as they affect the University's business and monitors adherence with the regulatory requirements. It reviews the University's annual financial statements, with particular emphasis on regulatory and compliance aspects. Whilst senior executives attend meetings of the Audit Committee as necessary, they are not members of the Committee, and the Committee meets at least annually with the external auditors for independent discussions with no executive officers present. The identification, assessment and management of risk is a standing item which is considered at each meeting of the Audit Committee. These matters are subsequently reported to the University Court.

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

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

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

The Executive Board receives reports on key performance and risk indicators, and possible control issues are brought to its

attention. The Executive Board and the Audit Committee also receive regular reports from the internal auditors which include recommendations for improvement. The Audit Committee's role in this area is confined to a high level review of the arrangements for internal financial control. The Court receives reports as appropriate on risk and control issues from management and the Audit Committee.

Review of Effectiveness

For 2013/14, the Court established as a Key Performance Indicator of the effectiveness of its performance, and of its Committees, 'full alignment with the Scottish Code of Good Higher Education Governance'. In support of that, the Court undertook a comprehensive internal review of its practices, benchmarking these fully against the Main Principles and supporting Guidelines of the Code. Progress towards full compliance was a standing item at each Court meeting during 2013/14, with members agreeing a number of amendments to established policies and procedures. In June 2014, the Court approved the statement that it was compliant with the Scottish Code, and that its KPI for Effectiveness of Court had been achieved.

Looking forward, the University is exploring options for an externally facilitated review of its governance arrangements, but in the interim, the 2014-15 Audit Plan has commenced with an audit of the University's governance arrangements.

Throughout 2013/14, Court reviewed a full suite of Key Performance Indicators (KPIs) that it has established as part of its wider assessment of its effectiveness. Following the year end, the Court undertook a review of two KPIs relating to earnings before interest, taxation, depreciation and amortisation (EBITDA) and to net cash flow from operating activities less interest payable as a proportion of turnover, and also a basket of six indicators of financial health as recommended by the UK-wide Financial Sustainability Strategy Group (FSSG). In accordance with the FSSG methodology, these KPIs were measured over a rolling five-year period. As a result of this review, and also a review of six non-financial KPIs, the Court was able to assure itself that the University's academic and other strategies take account of the environment in which it expects to be operating, and are taking the University in a direction where it and its core publicly-funded activities should be financially sustainable.

System of Internal Financial Control

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

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic schools and support units;
- a comprehensive medium and short-term planning process, supplemented by detailed monthly income and expenditure reports, and annual capital budgets;
- monthly reviews of financial results involving variance 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 Committee.

The Audit Committee, on behalf of the Court, has reviewed the effectiveness of the Group's system of internal financial control as part of a rolling programme. The Committee has formed the opinion that the University's systems provide a reasonable basis for maintaining control and ensuring the achievement of economy, efficiency and effectiveness, and has noted that University management is continuing to work towards further strengthening of the control environment. Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material mis-statement or loss.

Going Concern

The University's activities, together with the factors likely to affect its future development, performance and position, are set out in the Operating and Financial Review on pages 4 to 8, which also includes information on cash flows and borrowing facilities. Demand from students for the University's courses remains strong. Consequently, the Court believes that the University is well placed to manage its business risks successfully despite the ongoing, uncertain economic outlook. As noted above, in accordance with the recommendations from the Higher Education Financial Sustainability Strategy Group (FSSG), the Court undertakes a formal annual assessment of the University's financial sustainability. This process involves reviewing a common set of six financial indicators, which have been applied to the University's historical results and to the financial forecasts. The Court has also undertaken an assessment of going concern and liquidity risk, taking into account the principles and recommendations set out in the Sharman report into going concern and liquidity risks. As a result of this exercise, the Court has a reasonable expectation that the University has adequate resources to enable it to continue in operational existence for the foreseeable future, and that it is appropriate to adopt the going concern basis of accounting in preparing the annual financial statements.

On behalf of the University Court

Keir Bloomer
Chairman

Professor Petra Wend
Principal & Vice-Chancellor

3 December 2014

RESPONSIBILITIES OF THE UNIVERSITY COURT

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

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

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

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

The University Court has taken reasonable steps to:

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

Keir Bloomer
Chairman

3 December 2014

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF THE UNIVERSITY COURT OF QUEEN MARGARET UNIVERSITY, EDINBURGH

We have audited the financial statements of the Queen Margaret University (the University) for the year ended 31 July 2014 which comprise the Consolidated Income and Expenditure Account, the Statement of Group Historical Cost Surpluses and Deficits, the Statement of Group Total Recognised Gains and Losses, the Consolidated and University's Balance Sheet, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

RESPECTIVE RESPONSIBILITIES OF THE UNIVERSITY COURT AND AUDITORS

As explained more fully in the Statement of Responsibilities of the University Court set out on page 12, the University Court (who are also the directors of the University for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

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

- have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Operating and Financial Review Incorporating the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

OPINION ON OTHER MATTERS PRESCRIBED BY THE SCOTTISH FUNDING COUNCIL'S FINANCIAL MEMORANDUM DATED JANUARY 2006

In our opinion, in all material respects:

- funds from whatever source administered by the institution for specific purposes have been properly applied 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 the Scottish Funding Council have been applied in accordance with the Financial Memorandum and the mandatory requirements attached to the Financial Memorandum.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

- the University has not kept proper and adequate accounting records or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of governors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the University Court.

David Barnes
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
4 December 2014

Grant Thornton UK LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

(A) Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of endowment asset investments and land and buildings, and in accordance with both the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 and applicable Accounting Standards in the United Kingdom. Compliance with the Statement of Recommended Practice: Accounting : Further and Higher Education requires a departure from the requirements of the United Kingdom Companies Act 2006 relating to the disclosure of endowment asset investments; an explanation of this departure is given in (H) below.

The financial statements have been prepared on a going concern basis. A material uncertainty has been identified in relation to the financial arrangements for the halls of residence, as explained in note 27 to the financial statements. The University Court does not believe that this circumstance casts significant doubt on the ability of the University to continue as a going concern.

A summary of the more important group accounting policies, which have been applied consistently, is set out below.

(B) Basis of consolidation

The consolidated financial statements consolidate the financial statements of the University and its subsidiary undertaking and special purpose vehicle for the financial year ended 31 July 2014. Details of these companies are given in note 13. Intra-group sales and profits are eliminated fully on consolidation.

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

(C) Recognition of income

Grants for recurrent expenditure are credited to income on an accruals basis in the year in which they are receivable. Non-recurrent grants received in respect of the acquisition or construction of fixed assets are treated as deferred income and released to income over the expected useful economic life of the asset, at the same rate as the depreciation charge on the asset for which the grant was awarded.

Income from tuition fees and education contracts is included in the year in which the service is provided.

Income from research grants and contracts is included to the extent that a right has been obtained to receive consideration in respect of performance of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contributions towards overhead costs.

(D) Agency arrangements

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.

(E) Leases and hire purchase contracts

Rentals under operating leases are charged to the income and expenditure account on a straight-line basis over the lease term.

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.

(F) Taxation

The University is recognised by HM Revenue & Customs as a charity for the purposes of sections 478 to 488 of the Corporation Tax Act 2010, and is exempt from corporation tax on its charitable activities. This treatment does not extend to the subsidiary company, which thus transfers any taxable profit to the University in accordance with Gift Aid provisions or by way of deed of covenant.

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 tangible fixed assets is included in their cost.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

(G) Fixed assets

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

Costs incurred in relation to a tangible fixed asset after its initial purchase or production are capitalised to the extent that they increase the expected future benefits to the University from the existing tangible fixed asset beyond its previously assessed standard of performance; the cost of any such enhancements is added to the gross carrying amount of the tangible fixed asset concerned.

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 29 and 50 years. No depreciation is charged on assets in the course of construction.

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

(H) Investments

Listed investments held as fixed assets or endowment assets are shown at market value. Investments in subsidiary undertakings are shown at the lower of cost or net realisable value, and investments in associates are shown in the consolidated balance sheet at the attributable share of net assets.

The Statement of Recommended Practice: Accounting for Further and Higher Education requires the presentation of endowment asset investments in the balance sheet as a separate heading between fixed and current assets. This departure from the requirements of the United Kingdom Companies Act, for all investments to be classified as either fixed or current assets, is, in the opinion of the Court, necessary for the financial statements to give a true and fair view in accordance with applicable accounting standards.

(I) Cash flows and liquid resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand and at the bank, 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. They exclude any such assets held as endowment asset investments.

(J) 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.

(K) Research and development

Expenditure on pure and applied research is treated as a part of the continuing activities of the University. Expenditure on development activities is carried forward and amortised over the period expected to benefit.

(L) Intra-group transactions

Gains or losses on any intra-group transactions are eliminated in full. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated.

(M) Charitable donations

Unrestricted donations are recognised in the financial statements when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

Where charitable donations are restricted to a particular objective specified by the donor, these are accounted for as an endowment.

Donations received to be applied to the cost of a tangible fixed asset are shown on the balance sheet as a deferred capital grant. The deferred capital grant is released to the income and expenditure account over the same estimated useful life that is used to determine the depreciation charge associated with the tangible fixed asset.

Gifts in kind are included in the income and expenditure account either using a reasonable estimate of their gross value or the amount actually realised.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

(N) Retirement benefits

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

The LGPS and the USS are externally funded and the STSS is unfunded. The expected cost of providing staff pensions is recognised in the income and expenditure account, on a systematic basis, over the expected average remaining lives of the members of the pension fund, in accordance with Financial Reporting Standard 17 (FRS17) on Retirement Benefits, and recognises retirement benefits as the benefits are earned and not when they are due to be paid. The contributions are determined by qualified actuaries. The contribution charges are recognised in the accounting periods in which they arise. The University has adopted in full the requirements of FRS17.

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. The cost of additional unfunded benefits payable to members of the LGPS is included within the pension liability on the balance sheet.

(O) 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 a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is discounted to present value where the time value of money is material. The discount rate used reflects current market assessments of the time value of money and reflects any risks specific to the liability.

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

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

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

For the Year Ended 31 July 2014

Continuing operations	Note	2013/14 £000	2012/13 £000
INCOME			
Scottish Funding Council grants	1	14,511	13,848
Tuition fees and education contracts	2	12,494	12,594
Research and knowledge exchange income	3	3,113	3,458
Other operating income	4	4,564	4,812
Endowment and investment income	5	286	131
Total income		34,968	34,843
EXPENDITURE			
Staff costs	6	20,936	18,696
Other operating expenses	7	9,343	9,351
Depreciation of tangible fixed assets	12	2,485	2,481
Interest payable	9	2,741	2,843
Total expenditure		35,505	33,371
(Deficit)/surplus after depreciation of fixed assets at valuation and before tax		(537)	1,472
Taxation	10	-	-
(Deficit)/surplus after depreciation of fixed assets at valuation and tax		(537)	1,472
Minority interest	13	706	776
Surplus on continuing operations after depreciation of fixed assets at valuation and tax		169	2,248
Transfer from accumulated income within specific endowments		-	-
Surplus for the year retained within general reserves		169	2,248

STATEMENT OF GROUP HISTORICAL COST SURPLUSES AND DEFICITS

For the Year Ended 31 July 2014

	Note	2013/14 £000	2012/13 £000
Surplus on continuing operations before taxation		169	2,248
Difference between historical cost depreciation charge and the actual charge for the year calculated on the revalued amount	21	136	-
Historical cost surplus before and after taxation		305	2,248

STATEMENT OF GROUP TOTAL RECOGNISED GAINS AND LOSSES
For the Year Ended 31 July 2014

	Note	2013/14 £000	2012/13 £000
Surplus after depreciation of assets at valuation and tax		169	2,248
(Depreciation)/appreciation of endowment asset investments	20	(8)	8
Net income/(expenditure) from specific endowments		4	64
Revaluation of land and buildings	21	-	7,807
Actuarial gain/(loss) in respect of Local Government Pension Scheme	29	(4,419)	2,986
TOTAL RECOGNISED GAINS / (LOSSES) RELATING TO THE YEAR		(4,254)	13,113

Reconciliation

Opening reserves and endowments	27,490	14,377
Total recognised gains and losses relating to the year	(4,254)	13,113
Closing reserves and endowments	<u>23,236</u>	<u>27,490</u>

BALANCE SHEETS AS AT 31 JULY 2014

	Note	Group		University	
		2014	2013	2014	2013
		£000	£000	£000	£000
FIXED ASSETS					
Tangible assets	12	95,531	97,849	66,503	67,784
Investments	13	-	-	-	-
		<u>95,531</u>	<u>97,849</u>	<u>66,503</u>	<u>67,784</u>
ENDOWMENT ASSET INVESTMENTS					
	14	330	334	330	334
CURRENT ASSETS					
Debtors	15	1,900	1,985	2,298	2,473
Cash at bank and in hand		12,824	10,931	10,195	8,363
		<u>14,724</u>	<u>12,916</u>	<u>12,493</u>	<u>10,836</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR					
	16	(52,313)	(51,799)	(9,895)	(9,467)
NET CURRENT ASSETS / (LIABILITIES)					
		<u>(37,589)</u>	<u>(38,883)</u>	<u>2,598</u>	<u>1,369</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
		58,272	59,300	69,431	69,487
CREDITORS : AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR					
	17	(13,779)	(14,212)	(16,142)	(16,662)
PROVISIONS FOR LIABILITIES AND CHARGES					
	18	(3,501)	(3,382)	(3,501)	(3,382)
NET ASSETS excluding pension liability					
		<u>40,992</u>	<u>41,706</u>	<u>49,788</u>	<u>49,443</u>
NET PENSION LIABILITY					
	29	(10,603)	(6,016)	(10,603)	(6,016)
NET ASSETS including pension liability					
		<u>30,389</u>	<u>35,690</u>	<u>39,185</u>	<u>43,427</u>

BALANCE SHEETS AS AT 31 JULY 2014

	Note	Group		University	
		2014	2013	2014	2013
		£000	£000	£000	£000
Represented by:					
DEFERRED CAPITAL GRANTS	19	13,017	13,358	13,017	13,358
ENDOWMENTS	20				
Expendable		284	288	284	288
Permanent		46	46	46	46
		330	334	330	334
RESERVES					
Revaluation reserve	21	7,671	7,807	7,671	7,807
Income and expenditure account	22	25,838	25,365	28,770	27,944
Pension reserve	22	(10,603)	(6,016)	(10,603)	(6,016)
TOTAL RESERVES		22,906	27,156	25,838	29,735
TOTAL ENDOWMENTS AND RESERVES		23,236	27,490	26,168	30,069
MINORITY INTEREST		(5,864)	(5,158)	-	-
TOTAL FUNDS		30,389	35,690	39,185	43,427

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

The financial statements on pages 14 to 40 were approved by the University Court on 3 December 2014 and signed on its behalf by:

Keir Bloomer
(Chairman)

Professor Petra Wend
(Principal and Vice-Chancellor)

CONSOLIDATED CASH FLOW STATEMENT
For the Year Ended 31 July 2014

	Note	2013/14 £000	2012/13 £000
Net cash inflow from operating activities	23	4,861	6,150
Returns on investments and servicing of finance	24	(2,593)	(2,586)
Taxation		-	-
Capital expenditure and financial investment	25	(180)	(277)
		<hr/>	<hr/>
Cash inflow before use of liquid resources and financing		2,088	3,287
Management of liquid resources		-	-
Financing	26	(191)	147
		<hr/>	<hr/>
Increase in cash	26	1,897	3,434
		<hr/>	<hr/>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/ (DEBT)

	2013/14 £000	2012/13 £000
Increase in cash in the period	1,897	3,434
Additional loans drawn down	(753)	(315)
Repayment of debt	944	168
	<hr/>	<hr/>
Change in net debt	2,088	3,287
Net debt at 1 August	(45,702)	(48,989)
	<hr/>	<hr/>
Net debt at 31 July	(43,614)	(45,702)
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

	2013/14 £000	2012/13 £000
I. SCOTTISH FUNDING COUNCIL GRANTS		
Recurrent grant		
Teaching	11,787	11,825
Research	589	555
Specific grants		
Wider access retention premium	586	328
Regional Coherence - Academies programme	220	174
Disabled student premium	67	81
Knowledge transfer	290	258
Scottish Drama Training Network	150	225
Capital maintenance grant released	521	8
Other miscellaneous grants	35	44
Deferred capital grants released (note 19)		
Land & buildings	196	216
Equipment	70	134
	14,511	13,848

2. TUITION FEES AND EDUCATION CONTRACTS

Scottish higher education students (including old-fee RUK students)	5,786	6,041
Rest of UK (RUK) students – new fees	932	554
European Union (excluding UK) students	1,764	1,722
Non-European Union students	3,800	4,079
Other fees	23	29
Education contracts	189	169
	12,494	12,594

3. RESEARCH AND KNOWLEDGE EXCHANGE INCOME

Research councils	352	169
UK based charities	342	265
UK government and health authorities	1,858	2,348
UK private sector	89	57
European funding	20	89
Other grants & contracts	452	530
	3,113	3,458

4. OTHER OPERATING INCOME

Residences, catering and conferences	3,924	4,128
Sports centre income	205	190
Released from deferred capital grants (note 19)	75	82
Other income	360	412
	4,564	4,812

NOTES TO THE FINANCIAL STATEMENTS

	2013/14 £000	2012/13 £000
5. ENDOWMENT AND INVESTMENT INCOME		
Interest receivable	131	131
Net return on pension asset/liability	155	-
	286	131

6. STAFF

Staff costs:

Wages and salaries	16,863	15,141
Social security costs	1,259	1,184
Other pension costs	2,622	2,199
Severance costs	192	172
	20,936	18,696

Average full time equivalent staff numbers by major category:

	FTE number	FTE number
Academic schools	190	175
Academic services	55	48
Research grants & contracts	31	30
Residences, catering & conferences	14	13
Premises	24	30
Administration & central services	103	101
	417	397

	£000	£000
Directors' emoluments (including pension contributions)		
Fees for services as members of University Court	-	-
Emoluments (i.e. salaries as members of staff)	429	456
Contributions paid to pension schemes	64	63
Benefits in kind	4	4
Total	497	523

These figures relate to six members of staff (2012/13 : seven), including the Principal.

Emoluments of the Principal and Vice-Chancellor (who was also the highest paid Member of the University Court)

	2013/14	2012/13
Professor Petra Wend		
Salary	173	169
Non-consolidated adjustment in respect of previous years	-	13
Pension contributions	26	25
Benefits in kind	2	2
Total	201	209

Pension contributions for Professor Wend are in respect of employers' contributions to the Scottish Teachers' Superannuation Scheme, and are paid at the same rate as for other employees in that scheme. The nature of the scheme means it is not possible to ascertain the amount of her accrued pension at the year end.

NOTES TO THE FINANCIAL STATEMENTS

6. STAFF (continued)

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

	2013/14 Number	2012/13 Number
Senior postholders		
£70,001 to £80,000	3	3
£80,001 to £90,000	2	1
£90,001 to £100,000	-	1
£100,001 to £110,000	1	1
£170,001 to £180,000	1	-
£180,001 to £190,000	-	1
Others		
£70,001 to £80,000	2	-
£80,001 to £90,000	1	1

Compensation for loss of office	2013/14 £000	2012/13 £000
Compensation payable in respect of senior postholders	-	-

	2013/14 £000	2012/13 £000
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7. OTHER OPERATING EXPENSES

Residences, catering and conferences operating expenses	709	637
Consumables and laboratory expenditure	1,291	1,022
Examination expenses	75	82
Graduation costs	40	20
Books and periodicals	524	503
Heat, light and water	887	865
Repairs, general maintenance and minor works	1,729	1,685
Grants to QMU Students' Union	235	210
Research student grants	202	234
Rents and rates	135	138
External auditors' remuneration (of which £28,000 refers to the University)	37	37
External auditors' remuneration in respect of non-audit services	17	-
Internal auditors' remuneration (all relating to the University)	33	28
Marketing	341	319
Subscriptions	143	158
Postage, stationery, reprographics, telephone	301	324
Travel & subsistence	441	388
Staff recruitment	45	73
Insurance	236	257
Research grants and contracts	941	1,211
SFC special initiative grant expenditure	128	96
Movement in provision for bad debts	(116)	282
Other expenses	969	782
	9,343	9,351

NOTES TO THE FINANCIAL STATEMENTS

8. ANALYSIS OF 2013/14 EXPENDITURE BY ACTIVITY

	Staff costs	Other operating expenses	Depreciation	Interest Payable	Total
	£000	£000	£000	£000	£000
Academic schools	10,574	1,714	59	-	12,347
Academic services	2,123	1,513	160	-	3,796
Research grants & contracts	1,501	942	-	-	2,443
Residences, catering and conferences	366	812	1,039	2,276	4,493
Premises	921	3,327	1,212	462	5,922
Administration & central services	4,366	1,019	15	3	5,403
Other expenses	1,085	16	-	-	1,101
	<u>20,936</u>	<u>9,343</u>	<u>2,485</u>	<u>2,741</u>	<u>35,505</u>

The depreciation charge has been funded by:

Deferred capital grants released	£000
General income	341
	2,144
	<u>2,485</u>

9. INTEREST PAYABLE

	2013/14	2012/13
	£000	£000
Interest payable on loan from Barclays Bank plc	462	472
Loan interest payable by Queen Margaret Student Solutions	2,276	2,251
Interest payable on finance leases	3	8
Net interest payable on pension asset/liability	-	112
	<u>2,741</u>	<u>2,843</u>

The rate of interest payable on the loan from Barclays Bank plc is commercially confidential. Details of repayment terms are set out in Note 17.

Interest payable by Queen Margaret Student Solutions relates to a 35-year loan drawn down on 17 September 2007 from Bank of Scotland (now part of Lloyds Banking Group). The rate of interest payable on this loan is commercially confidential.

10. TAXATION

	2013/14	2012/13
	£000	£000
UK Corporation Tax payable	-	-
	<u>-</u>	<u>-</u>

11. SURPLUS/(DEFICIT) FOR THE YEAR

As permitted by section 408(3) of the Companies Act 2006, the Income and Expenditure Account of the University (the holding company) has not been shown separately in these financial statements. The University's historical cost surplus for the year was £658,000 (2012/13: £2,636,000).

NOTES TO THE FINANCIAL STATEMENTS

12. TANGIBLE ASSETS Group

	Freehold land & buildings	Fixtures, fittings & equipment		TOTAL
	Owned	Owned	Held under finance leases	
	£000	£000	£000	£000
Cost or valuation:				
At 1 August 2013	103,721	7,539	1,166	112,426
Additions at cost	-	167	-	167
Disposals at cost or valuation	-	-	-	-
Revaluation	-	-	-	-
At 31 July 2014	103,721	7,706	1,166	112,593
Depreciation:				
At 1 August 2013	6,221	7,224	1,132	14,577
Provided during the year	2,287	181	17	2,485
At 31 July 2014	8,508	7,405	1,149	17,062
Net book amount at 31 July 2014	95,213	301	17	95,531
Net book amount at 1 August 2013	97,500	315	34	97,849
Analysis of net book amount at 31 July 2014				
Financed by capital grant	12,979	38	-	13,017
Other	82,234	263	17	82,514
	95,213	301	17	95,531

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

As explained in note 13 below, the results of Queen Margaret Student Solutions have been consolidated into these financial statements, and the cost of construction of the student residences of £36.286 million has been included in the group financial statements.

NOTES TO THE ACCOUNTS

12. TANGIBLE ASSETS (continued) University

	Freehold land & buildings	Fixtures, fittings & equipment		TOTAL
	Owned	Owned	Held under finance leases	
	£000	£000	£000	£000
Cost or valuation:				
At 1 August 2013	67,435	7,539	1,166	76,140
Additions at cost	-	167	-	167
At 31 July 2014	67,435	7,706	1,166	76,307
Depreciation:				
At 1 August 2013	-	7,224	1,132	8,356
Provided during the year	1,250	181	17	1,448
At 31 July 2014	1,250	7,405	1,149	9,804
Net book amount at 31 July 2014	66,185	301	17	66,503
Net book amount at 1 August 2013	67,435	315	34	67,784
Analysis of net book amount at 31 July 2014				
Financed by capital grant	12,979	38	-	13,017
Other	53,206	263	17	53,486
	66,185	301	17	66,503

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

NOTES TO THE FINANCIAL STATEMENTS

13. INVESTMENTS

Subsidiary Undertakings

Name of undertaking	Country of incorporation and registration	Description of shares held	Proportion of nominal value of shares held	Cost at 1 August 2013 and 31 July 2014
			%	£
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.

Queen Margaret Student Solutions

	2013/14	2012/13
Proportion of ordinary shares held	Nil	Nil
Proportion of voting rights held	One third	One third
Nature of business	Residences	Residences
Date of financial information	31 July 2014	31 July 2013

The student residences at the new campus were procured by means of a partnership arrangement with Sanctuary Housing Association and the Bank of Scotland (now part of Lloyds Banking Group). This involved the setting up of a special purpose vehicle company, Queen Margaret Student Solutions (QMSS), a company limited by guarantee, which is controlled in equal shares by the three partner organisations. Since the risks and rewards of ownership of the student residences fall ultimately to the University, the results of QMSS have been consolidated into these financial statements, with the minority interest relating to the share of reserves attributable to the other partners being extracted (£707,000 (2012/13, £776,000)). The student residences have been included within the group's fixed assets, and the associated borrowings have been included within short-term creditors. (See notes 17 and 27).

A summary of the unaudited financial position of QMSS is as follows:-

INCOME & EXPENDITURE, YEAR TO 31 JULY	2013/14	2012/13
Incoming resources	£000	£000
Rental income	3,175	3,044
Bank interest receivable	92	82
Other income	-	-
Total incoming resources	3,267	3,126
Resources expended		
Charitable activities	4,192	4,204
Governance costs	135	86
Total resources expended	4,327	4,290
Net outgoing resources for the year	(1,060)	(1,164)
BALANCE SHEET AT 31 JULY	2014	2013
Tangible fixed assets	31,479	32,603
Current assets		
Debtors	21	24
Cash at bank and in hand	2,265	2,040
Creditors: amounts falling due within one year	(42,561)	(42,404)
Net current assets / (liabilities)	(40,275)	(40,340)
Total assets less current liabilities	(8,796)	(7,737)
Creditors: amounts falling due after more than one year	-	-
Net assets	(8,796)	(7,737)
Unrestricted funds	(8,796)	(7,737)
Total funds	(8,796)	(7,737)

NOTES TO THE FINANCIAL STATEMENTS

Group and University

14. ENDOWMENT ASSET INVESTMENTS

	2013/14 £000	2012/13 £000
Balance at 1 August	334	262
Net appreciation less depreciation	(8)	8
Increase in cash balances	4	64
Balance at 31 July	330	334
	2014	2013
	£000	£000
Fixed & variable interest stocks	9	34
Equities	123	94
Due from general fund	134	146
Bank balances	64	60
Total endowment asset investments at market value	330	334
Fixed & variable interest stocks and equities at cost	127	115

15. DEBTORS

Amounts falling due within one year:

	Group		University	
	2014 £000	2013 £000	2014 £000	2013 £000
Trade debtors	777	860	702	810
Prepayments and accrued income	1,123	1,125	1,101	1,103
Amounts owed by subsidiaries	-	-	495	560
	<u>1,900</u>	<u>1,985</u>	<u>2,298</u>	<u>2,473</u>

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		University	
	2014 £000	2013 £000	2014 £000	2013 £000
Secured loans (see note 17 and note 27)	42,738	42,513	652	652
Trade creditors	1,460	998	1,390	859
Social security and other taxation payable	417	55	417	16
Accruals and deferred income	7,547	8,069	7,175	7,666
Finance lease commitments due within one year	17	18	17	18
Amount due to endowment funds	134	146	134	146
Provision for accumulated losses in subsidiary	-	-	-	110
Amounts owed to subsidiary	-	-	110	-
	<u>52,313</u>	<u>51,799</u>	<u>9,895</u>	<u>9,467</u>

NOTES TO THE ACCOUNTS

17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Secured loan – Barclays Bank plc
 Secured loan – Lloyds Banking Group
 Finance lease commitments
 Deferred income

Group		University	
2014 £000	2013 £000	2014 £000	2013 £000
13,764	14,181	13,764	14,181
-	-	-	-
15	31	15	31
-	-	2,363	2,450
13,779	14,212	16,142	16,662
Analysis of secured loans:-			
Due between one and two years	652	652	652
Due between two and five years	1,956	1,956	1,956
Due in five years or more	11,156	11,573	11,573
13,764	14,181	13,764	14,181

The bank loan represents the amount drawn down under a sterling revolving facility with Barclays Bank plc, for the purpose of financing capital expenditure incurred in connection with the relocation of the University's campuses to the Craighall site in 2007. The agreed facility for the term loan is £15 million, which is repayable in full no later than 31 July 2035. The loan is secured over a portion of the new campus site at Craighall.

The loan from Lloyds Banking Group is held within Queen Margaret Student Solutions (QMSS), and is due to be repaid over a period of 35 years. Lloyds Banking Group holds a standard security and floating charge over the assets of QMSS as security in respect of this loan. On 4 November 2011, Lloyds Banking Group issued a letter of reservation of rights to QMSS in respect of a breach of the loan-to-value financial covenant in the facility agreement. Further information is provided in note 28. As a result, this loan, amounting to £42.086 million, is shown as being fully repayable within one year.

All of the finance lease commitments, which are secured over the leased assets, fall due for payment between one and five years.

18. PROVISIONS FOR LIABILITIES AND CHARGES

Group and University

	Unfunded Pensions £000
At 1 August 2013	3,382
Utilised in year	(242)
Transfer from Income & Expenditure account	361
At 31 July 2014	3,501

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 2014, on the basis of valuation prescribed by FRS17, and using the same set of assumptions as are set out in Note 28 in relation to the valuation of the Local Government Pension Scheme.

NOTES TO THE ACCOUNTS

19. DEFERRED CAPITAL GRANTS

In respect of fixed assets funded by SFC, Scottish Enterprise Edinburgh & Lothian (SEEL) and other sources :-

Group and University	SFC	SEEL	Other	TOTAL
	£000	£000	£000	£000
At 1 August 2013				
Buildings	9,592	1,103	2,555	13,250
Equipment	108	-	-	108
Total	9,700	1,103	2,555	13,358
Receivable during year:				
Buildings	-	-	-	-
Equipment	-	-	-	-
Total	-	-	-	-
Released to income and expenditure account:				
Buildings	196	23	52	271
Equipment	70	-	-	70
Total	266	23	52	341
At 31 July 2014				
Buildings	9,396	1,080	2,503	12,979
Equipment	38	-	-	38
Total	9,434	1,080	2,503	13,017

20. ENDOWMENTS

Group and University

	Unrestricted	Restricted Expendable	Restricted Permanent	Restricted Total	Total
	£000	£000	£000	£000	£000
Balance at 1 August 2013	-	288	46	334	334
Net additions/(disposals)	-	-	-	-	-
Appreciation/(depreciation) of endowment asset investments	-	(8)	-	(8)	(8)
Income for year	-	173	-	173	173
Expenditure for year	-	(169)	-	(169)	(169)
At 31 July 2014	-	284	46	330	330
Represented by:					
Capital value	-	-	43	43	43
Accumulated income	-	284	3	287	287
	-	284	46	330	330

NOTES TO THE ACCOUNTS

21. REVALUATION RESERVE

	Group		University	
	2014 £000	2013 £000	2014 £000	2013 £000
At 1 August	7,807	-	7,807	-
Revaluation of land and buildings		7,807	-	7,807
Release to general reserve (note 22)	(136)	-	(136)	-
At 31 July	7,671	7,807	7,671	7,807

22. GENERAL RESERVE

	Group		University	
	2014 £000	2013 £000	2014 £000	2013 £000
At 1 August	19,349	14,115	21,928	16,306
Surplus for year	169	2,248	522	2,636
Transferred from revaluation reserve (note 21)	136	-	136	-
Actuarial gain/(loss) in pension scheme	(4,419)	2,986	(4,419)	2,986
At 31 July	15,235	19,349	18,167	21,928
Represented by:-				
Income and expenditure account				
At 1 August	25,365	22,942	27,944	25,133
Surplus for the year	305	2,248	522	2,636
Transferred from revaluation reserve (note 21)	136	-	136	-
Transfer from/(to) pension reserve	168	175	168	175
At 31 July	25,838	25,365	28,770	27,944
Pension reserve				
At 1 August	(6,016)	(8,827)	(6,016)	(8,827)
Current service cost	(1,498)	(1,143)	(1,498)	(1,143)
Losses/(gains) on curtailments & settlements	-	(106)	-	(106)
Past service cost	(26)	-	(26)	-
Employer contributions	1,148	1,133	1,148	1,133
Contributions in respect of unfunded benefits	53	53	53	53
Net return on assets	155	(112)	155	(112)
Transfer from/(to) income & expenditure account	(168)	(175)	(168)	(175)
Actuarial gains / (losses)	(4,419)	2,986	(4,419)	2,986
At 31 July	(10,603)	(6,016)	(10,603)	(6,016)
Summary				
Income and expenditure account	25,838	25,365	28,770	27,944
Pensions reserve	(10,603)	(6,016)	(10,603)	(6,016)
At 31 July	15,235	19,349	18,167	21,928

NOTES TO THE ACCOUNTS

23. RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS/(DEFICIT) TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2013/14	2012/13
	£000	£000
Surplus / (deficit) before tax	(537)	1,472
Pension costs less contributions payable	323	63
Depreciation (note 12)	2,485	2,481
Deferred capital grants released to income (note 19)	(341)	(432)
Investment income and interest receivable	(286)	(131)
Interest payable	2,741	2,843
(Increase)/decrease in operating debtors	85	(558)
Increase/(decrease) in operating creditors	272	491
Increase/(decrease) in provisions	119	(79)
Net cash inflow from operating activities	4,861	6,150

24. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

Net income from endowments	17	13
Other interest received	131	131
Interest paid	(2,741)	(2,730)
Net outflow from returns on investments and servicing of finance	(2,593)	(2,586)

25. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

Tangible fixed assets acquired	(167)	(277)
Endowment asset investments acquired	(73)	(18)
Total fixed and endowment asset investments acquired	(240)	(295)
Receipts from disposal of tangible fixed assets	-	-
Receipts from sales of endowment assets	60	18
Deferred capital grants received	-	-
Net cash inflow from capital expenditure & financial investment	(180)	(277)

NOTES TO THE ACCOUNTS

26. ANALYSIS OF CHANGES IN NET DEBT

	At 31 July 2013 £000	Cash Flows £000	Non-cash Flows £000	At 31 July 2014 £000
Cash at bank and in hand	10,931	1,893	-	12,824
Endowment assets	60	4	-	64
	<u>10,991</u>	<u>1,897</u>	<u>-</u>	<u>12,888</u>
Financing				
Debt due within one year	(42,512)	191	(417)	(42,738)
Debt due between one and five years	(2,608)	-	-	(2,608)
Debt due after more than five years	(11,573)	-	417	(11,156)
Total financing	<u>(56,693)</u>	<u>191</u>	<u>-</u>	<u>(56,502)</u>
Change in net debt	<u>(45,702)</u>	<u>2,088</u>	<u>-</u>	<u>(43,614)</u>

27. QUEEN MARGARET STUDENT SOLUTIONS

During 2010/11, Lloyds Banking Group (LBG) commissioned a valuation of the halls of residence, in accordance with their entitlement under the terms of the loan facility agreement with Queen Margaret Student Solutions (QMSS). On 4 November 2011, LBG issued a reservation of rights letter to QMSS in respect of a breach of the loan-to-value financial covenant contained in the loan facility agreement. In response to this, the University Court has considered whether it is appropriate to make an impairment adjustment to the carrying value of the halls of residence in the group balance sheet. In accordance with the provisions of Financial Reporting Standard 11, Impairment of Fixed Assets and Goodwill, the Court is of the view that the value in use of the asset is not lower than the net book value, and that no impairment adjustment is therefore required.

The Court has also given consideration, in accordance with the Guidance for Directors of UK Companies on Going Concern and Liquidity Risk issued by the Financial Reporting Council in 2009, as to whether it is appropriate to prepare the group accounts on a going concern basis. The Court has concluded that, although a material uncertainty exists in relation to the future funding arrangements for the halls of residence, this does not cast significant doubt on the ability of the University and the group to continue to operate as a going concern, as the net financial impact on the University is not expected to be material.

NOTES TO THE ACCOUNTS

28. PENSIONS AND SIMILAR OBLIGATIONS

The University's employees belong to three principal pension schemes, the Scottish Teachers Superannuation Scheme (STSS), the Local Government Pension Scheme (LGPS) and the Universities Superannuation Scheme (USS). The total pension cost for the year was £2,622,000 (2012/13: £2,199,000).

	Group and University	
	Year ended 31 July 2014	Year ended 31 July 2013
	£000	£000
<i>The total pension charge is analysed as follows:-</i>		
Lothian Pension Fund (LGPS)	1,320	1,064
Scottish Teachers Superannuation Scheme	1,128	992
Universities Superannuation Scheme	174	143
	2,622	2,199
	2,622	2,199

Estimated employers' pension contributions for the year to 31 July 2015 are £2,309,000.

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 2011 updated to 31 July 2014 by a qualified independent actuary, Hymans Robertson LLP.

Assumptions at	31 July 2014	31 July 2013	31 July 2012
Pension increase rate	2.7%	2.8%	2.2%
Salary increase rate	5.0%	5.1%	4.5%
Expected return on assets	6.0%	5.9%	5.0%
Discount rate	4.0%	4.6%	4.1%

The fund is valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the scheme actuary reviews the progress of the scheme. The actuary has indicated that the resources of the scheme are likely, in the normal course of events, to be sufficient to meet the liabilities as they fall due at the level specified by the scheme regulations. The currently agreed employer's contribution rate for the University is 16%. With effect from 1 April 2009, a tiered system of employee contribution rates was introduced, based on individual salary levels.

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 include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement at age 65 are:-

	31 July 2014 No. of years	31 July 2013 No. of years
Current pensioners		
Males	20.4	20.4
Females	22.8	22.8
Future pensioners		
Males	22.6	22.6
Females	25.4	25.4

NOTES TO THE ACCOUNTS

28. PENSIONS AND SIMILAR OBLIGATIONS (continued)

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

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over a long period and are thus inherently uncertain, were:-

	Long term rate of return at 31 July 2014	Value at 31 July 2014 £000	Long term rate of return at 31 July 2013	Value at 31 July 2013 £000	Long term rate of return at 31 July 2012	Value at 31 July 2012 £000
Equities	6.5%	28,862	6.4%	26,782	5.5%	21,139
Bonds	3.3%	2,923	3.8%	2,343	2.9%	2,471
Property	4.7%	2,923	4.6%	2,678	3.7%	3,020
Cash	3.6%	1,827	3.4%	1,674	2.8%	824
Total		36,535		33,477		27,454

Analysis of the amount shown in the balance sheet

	Value at 31 July 2014 £000	Value at 31 July 2013 £000	Value at 31 July 2012 £000	Value at 31 July 2011 £000	Value at 31 July 2010 £000
Estimated employer assets (A)	36,535	33,477	27,454	27,399	23,968
Present value of scheme liabilities	(46,362)	(38,740)	(35,505)	(32,052)	(29,784)
Present value of unfunded liabilities	(776)	(753)	(776)	(863)	(835)
Total value of liabilities (B)	(47,138)	(39,493)	(36,281)	(32,915)	(30,619)
Net pension liability (A) – (B)	(10,603)	(6,016)	(8,827)	(5,516)	(6,651)

Analysis of the amount charged to operating surplus (staff costs – note 6)

	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000
Current service cost	1,498	1,143
Past service cost	26	-
Losses on curtailments and settlements	-	106
Total operating charge	1,524	1,249

Analysis of amounts included in other finance income/costs (note 5/ note 9)

	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000
Expected return on employer assets	(1,995)	(1,392)
Interest on pension scheme liabilities	1,840	1,504
Net charge/(return)	(155)	112
Net income and expenditure account charge	1,369	1,361

Analysis of amount recognised in Statement of Total Recognised Gains and Losses (STRGL)

	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000
Actual return less expected return on pension scheme assets	371	3,861
Experience gains and losses arising on the scheme liabilities	(3)	6
Changes in financial assumptions underlying the present value of the scheme liabilities	(4,787)	(881)
Actuarial gain/(loss) recognised in STRGL	(4,419)	2,986

NOTES TO THE ACCOUNTS

28. PENSIONS AND SIMILAR OBLIGATIONS (continued)

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

In order to address the scheme deficit, employer contribution rates have been increased in recent years, and further changes to the scheme, including the introduction of tiered rates for employee contributions, were introduced with effect from 1 April 2009. No indication has been received from the scheme trustees that any capital sum contribution will be sought from employers to reduce the amount of the deficit.

Analysis of movements in the present value of the scheme liabilities

	31 July 2014	31 July 2013
	£000	£000
Opening defined benefit obligation	39,493	36,281
Current service cost	1,498	1,143
Interest cost	1,840	1,504
Contributions by members	418	356
Actuarial losses/(gains)	4,790	875
Past service costs	26	-
Losses/(gains) on curtailments and settlements	-	106
Unfunded benefits paid	(53)	(53)
Benefits paid	(874)	(719)
Closing defined benefit obligation	47,138	39,493

Analysis of movement in the market value of the scheme assets

	31 July 2014	31 July 2013
	£000	£000
Opening fair value of employer assets	33,477	27,454
Expected return on assets	1,995	1,392
Contributions by members	418	356
Contributions by employer	1,148	1,133
Contributions in respect of unfunded benefits	53	53
Actuarial (losses)/gains	371	3,861
Unfunded benefits paid	(53)	(53)
Benefits paid	(874)	(719)
Closing fair value of employer assets	36,535	33,477

History of experience gains and losses:-	Year ended 31 July 2014	Year ended 31 July 2013	Year ended 31 July 2012	Year ended 31 July 2011	Year ended 31 July 2010
	£000	£000	£000	£000	£000
Difference between the expected and actual return on assets	371	3,861	(2,418)	1,091	1,517
Value of assets	36,535	33,477	27,454	27,399	23,968
Percentage of assets	1.0%	11.5%	(8.8%)	4.0%	6.3%
Experience gains/(losses) on liabilities	(3)	6	2,354	(45)	17
Present value of liabilities	47,138	39,493	36,281	32,915	30,619
Percentage of the present value of liabilities	(0.0)%	0.0%	6.5%	(0.1)%	0.1%
Actuarial gains/(losses) recognised in the STRGL	(4,419)	2,986	(3,457)	1,077	1,658
Present value of liabilities	47,138	39,493	36,281	32,915	30,619
Percentage of the present value of liabilities	(9.4)%	7.6%	(9.5)%	3.3%	5.4%

NOTES TO THE ACCOUNTS

28. PENSIONS AND SIMILAR OBLIGATIONS (continued)

B) Scottish Teachers' Superannuation Scheme (STSS)

The STSS is an unfunded multi-employer defined benefit scheme. Contributions are credited to the Exchequer, and the Exchequer effectively meets the costs of all benefits. The financing of the scheme is based on the standard methodology for unfunded public service pension schemes known as Superannuation Contributions Adjusted for Past Experience (SCAPE). Under SCAPE, an account is maintained ("the Account"), to which contributions from members and employers are credited and from which expenditure on benefits (including pension increases under the Pensions (Increase) Acts) is debited. The Account is also credited with interest at the long-term rate determined by HM Treasury from time to time, after taking advice from the Government Actuary. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has accounted for its contributions as if it were a defined contribution scheme.

The last audited full actuarial and funding valuation of the scheme was carried out at 31 March 2009. This valuation used the Attained Age Method for existing scheme members and the Entry Age Method for new scheme members, to reflect changes to the scheme provisions which came into effect from 1 April 2007. With effect from 1 April 2009, the employer contribution rate has been set at 14.9%. Employee contributions are dependent upon the member's salary bracket. The results of the 2009 valuation were rolled forward to give a liability of £24.0 billion at 31 March 2013. As the scheme is unfunded there can be no surplus or shortfall. Pension contribution rates will be set by the scheme's actuary at a level to meet the cost of pensions as they accrue.

The assumptions that have had the most significant effect on the roll-forward valuation at 31 March 2013 are as follows:

Gross rate of return	4.10%
Rate of return on investments in excess of rate of increases in earnings	0.15%
Rate of return on investments in excess of rate of increases in prices	2.35%

C) Universities Superannuation Scheme (USS)

The University participates in the Universities Superannuation Scheme (USS), a multi-employer defined benefit scheme which is externally funded and contracted out of the State Second Pension. The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The University is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest concluded triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out regular reviews of the funding levels.

The valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (ie the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum). To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.1% per annum, salary increases would be 4.4% per annum (with short-term general pay growth at 3.65% per annum and an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.4% per annum for 3 years following the valuation then 2.6% per annum thereafter.

NOTES TO THE ACCOUNTS

28. PENSIONS AND SIMILAR OBLIGATIONS (continued)

C) Universities Superannuation Scheme (USS) (continued)

At the valuation date, the value of the assets of the scheme was £32,433.5 million and the value of the scheme's technical provisions was £35,343.7 million indicating a shortfall of £2,910.2 million. The assets therefore were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings. The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 93% funded; on a buy-out basis (assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 57% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using a AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82%. As part of this valuation, the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. A further formal triennial actuarial valuation was carried out as at 31 March 2014, the results of which will be available no later than 30 June 2015. It is likely that the amount of the shortfall will have increased from the 31 March 2011 level. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions but the allowance for promotional salary increases was not so high. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, on account of the variability mentioned above.

At the date of the valuation the Scheme was a fully funded Final Salary scheme for future accruals and the employer contribution rate was 16% of pensionable salary.

Following UK Government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Prices Index. Also in 2011, the USS Trustee Board implemented a number of proposals which have made some significant changes to the operation and funding of the scheme, and which are intended to improve the scheme's funding position. These changes mainly affect new entrants to the scheme, who are now provided on a Career Revalued Benefits basis rather than a final salary basis. Other changes include an increase in the Normal Pension Age for future service and new entrants to 65, the introduction of flexible retirement options, an increase in the level of member contributions, the introduction of cost sharing provisions in respect of future contribution levels and the introduction of a cap on future pension increases. In view of the likely increase in the shortfall expected as a result of the March 2014 valuation, consideration is currently being given as to whether further changes may require to be made to the operation and funding of the scheme.

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

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 2014, on the basis of valuation prescribed by FRS17. The total provision in respect of this liability is £3.501 million (2013 : £3.382 million).

NOTES TO THE ACCOUNTS

29. 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.

30. HARDSHIP AND CHILDCARE FUNDS

	2013/14 £000	2012/13 £000
HARDSHIP FUND (undergraduate and postgraduate)		
Balance at 1 August	-	-
Amounts received from Student Awards Agency for Scotland	212	210
Interest earned	-	-
Amount vired in from Childcare Fund	70	90
	<u>282</u>	<u>300</u>
Disbursed to students	(266)	(285)
Refunded to Student Awards Agency for Scotland	(16)	(15)
	<u>-</u>	<u>-</u>
Balance unspent at 31 July	-	-
	<u>-</u>	<u>-</u>
CHILDCARE FUND		
Balance at 1 August	-	-
Amounts received from Student Awards Agency for Scotland	140	142
Interest earned	-	-
	<u>140</u>	<u>142</u>
Disbursed to students	(65)	(44)
Amount vired out to Hardship Fund	(70)	(90)
Administration costs	-	-
Refunded to Student Awards Agency for Scotland	(5)	(8)
	<u>-</u>	<u>-</u>
Balance unspent at 31 July	-	-
	<u>-</u>	<u>-</u>

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

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