



Queen Margaret University
EDINBURGH

Statement of Accounts

FOR THE YEAR ENDED 31st July 2015

Registered No. SC007335
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PRINCIPAL'S REPORT for the year ended 31 July 2015



This financial year has seen the foundations laid for implementation of our new strategic plan. Developed through our 'QM150' strategic planning exercise, the plan covers the period up to 2025, the year in which we will celebrate our 150th anniversary. Underpinning it is our vision to be a university of ideas and influence: in other words, we will focus on both theory and practice, on ground-breaking research and on addressing real-world issues.

Our Research Excellence Framework (REF) 2014 results confirmed that our research is world-leading and that it has real practical impact. In REF 2014, 58% of our overall research was rated as world leading or internationally excellent. Amongst the highlights was our success in Speech and Language Sciences, where we are now 2nd in the UK and 1st in Scotland for the proportion of research classed as internationally excellent or world leading (92%). Building on these strong results, and the critical mass that we have established in key areas, we are now focusing our research and knowledge exchange work through seven centres. These centres tackle issues from food innovation and development to global health and development, and from health, activity and rehabilitation to consumer dispute resolution.

In learning and teaching, our National Student Survey scores continue to show an upwards trajectory. This year's score of 85% consolidates development work and successfully meets our benchmark. Individual course highlights include Podiatry achieving a 100% overall satisfaction rating, placing it joint top in the UK.

On campus, many longstanding plans have come to fruition to enhance the student experience. For example, we now offer our graduates a 'Careers for Life' service. As with most universities, careers advice at QMU was previously limited to the first two years after graduation; now our graduates can enjoy free access to our service throughout their careers, through our new Employability Centre.

We continue to build on our existing success in widening participation to ensure that we fulfil people's potential, whatever their background. We are committed to de-mystifying higher education and our approach to this is distinctive in that we work with younger children as well as senior school pupils. Notably, we are the first higher education institution in the east of Scotland to host the Children's University, which aims to help younger school children become confident learners and broaden their horizons, through out-of-school activities. We now have over 2,000 signed up to the scheme, which has been running for a year, and have held two graduation ceremonies at which family, teachers and supporters watched as the children 'graduated', dressed in gowns and mortar boards. Alongside this, our innovative South East Scotland Academies Partnership has continued to expand, and this year was shortlisted in the Outstanding Contribution to the Local Community category of the Herald Higher Education Awards. With academies in hospitality and tourism, creative industries, food science and nutrition, and health and social care, we are encouraging progression from school to FE, HE and employment and addressing skills gaps.

One of our core values, as articulated in our new strategy, is the University as 'a community without borders'. As part of this, we are keen to see development in the area around the campus that promotes synergies between the University and businesses, supports economic growth and meets the needs of the local community. More specifically, we are promoting the land adjacent to the campus as appropriate for specialist facilities to support businesses in high-growth innovation sectors.

As well as being locally engaged, we continue to be highly active internationally, and to expand this work. 20% of our student population comes from outside the EU, a number of our courses are delivered through partner organisations in countries across the world, and we are involved in a number of significant international research projects.

Looking specifically at our flagship areas of expertise, in health and rehabilitation, highlights this year include: completion of the 'Dynamic Dialects' archive which reveals the hidden workings of our tongues and vocal tracts using 1,500 ultrasound videos; refugee integration work by our Institute for Global Health and Development; and the launch of a suite of courses in person centred care.

In sustainable business, a broad range of QMU undergraduate and postgraduate courses in business, hospitality and tourism, and management have now been successfully validated with our partner in Greece, Athens Metropolitan College (AMC). There has been ever increasing demand for our work in complaints handling and dispute resolution, and we continue to see great interest in our expertise in gastronomy and public services governance.

In creativity and culture we launched a new BSc (Hons) Public Sociology this year, the first such award in Scotland; the Cabinet Secretary for Culture, Europe & External Affairs, Fiona Hyslop, joined us for our annual Film and Media Degree Show; and work by our film lecturers attracted further accolades.

Our achievements in the 2014/15 financial year, including a strong financial performance, demonstrate that we are already delivering on our vision of being a university of ideas and influence and that we are well placed to meet the challenges and opportunities that lie ahead.

Professor Petra Wend
Principal and Vice-Chancellor

OPERATING AND FINANCIAL REVIEW, INCORPORATING THE STRATEGIC AND DIRECTORS' 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 16 to 41 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") during the period from 1 August 2014 to 17 December 2014, on which date QMSS was put into voluntary administration. QMU Enterprises Limited undertakes commercial consultancy work, utilising the expertise of the University's academic and technical staff, and also deals with vacation letting of the University's student accommodation.

The financial statements have been prepared on a going concern basis in accordance with 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.

STRATEGIC REPORT

Development of strategic plan and key performance indicators

In February 2015, following a wide consultation process, the University launched its new QM150 strategy, based upon its vision to be a University of ideas and influence. The strategy sets out the mission for the development of the University over the next ten years, culminating in the 150th anniversary of the founding of the institution in 2025. Based upon the vision and mission, and ensuring alignment with the underpinning values of the University, a new strategic plan has been developed, which was approved by the University Court in December 2015. The plan sets out nine overarching goals which the University wishes to achieve in order to allow the delivery of the strategy by 2025. A key element of the plan is the inclusion of key performance indicators which the University Court uses to monitor progress towards the achievement of the goals set out in the plan (both financial and non-financial). The plan also sets out the processes employed to manage the risks which might inhibit this achievement.

Results for the year

The Group's consolidated results for the year to 31 July 2015 are summarised as follows:-

	2014/15	2013/14
	£million	£million
Underlying position		
Total income	36.1	35.0
Total expenditure	(35.7)	(35.5)
Minority interest (QMSS – underlying transactions)	0.3	0.7
Underlying surplus	0.7	0.2
<i>Adjustments relating to deconsolidation of QMSS:</i>		
Release from deferred income	2.5	-
Impairment adjustment	(5.7)	-
Minority interest relating to impairment adjustment	3.8	-
Retained surplus for the year	1.3	0.2

Income and expenditure for the year

The adjustments relating to the deconsolidation of QMSS are explained in more detail in note 13 to the accounts.

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

- An increase of £0.4 million in grant income from the Scottish Funding Council;
- An increase of £0.6 million in other operating income, mainly due to increased income from student accommodation occupancy;
- An increase of £1.3 million in staff costs, reflecting investment in additional posts in key strategic areas along with increased pension costs and costs of voluntary severance payments.
- A reduction in interest payable of £0.9 million as a result of refinancing of loan facilities.

QMU Enterprises Ltd generated a profit of £213,000 (2013/14: £305,000), which was passed to the University under deed of covenant. QMSS was a company limited by guarantee in which the University had a one-third interest. The company operated and maintained the University's on-campus student accommodation until 17 December 2014. On this date, the Directors of QMSS agreed that the company should go into voluntary administration. The University subsequently purchased the student accommodation from the administrator. The results of QMSS for the period to 17 December 2014 are fully consolidated in the financial statements, and the element of surplus or deficit attributable to the other two partners is shown as an adjustment in the Income and Expenditure Account.

STRATEGIC REPORT (continued)

Cash flows and liquidity

The surplus for the year, adjusted for the effect of non-cash items and interest, resulted in a net cash inflow of £4.1 million on operating activities (2013/14, £4.9 million inflow). Cash balances at 31 July 2015 of £9.1 million (2014: £12.8 million) represented 93 days' expenditure (2014: 131 days).

Borrowings

Borrowings at 31 July 2015 amounted to £36.5 million, relating entirely to secured loans taken out to fund the campus development at Musselburgh. That figure is analysed in the following table:

	31 July 2015	31 July 2014
	£million	£million
Barclays Bank plc	36.5	14.4
Lloyds Banking Group – loan for development of student accommodation	-	42.1
Total	36.5	56.5

On 17 December 2014, the University purchased the student accommodation from the administrator of QMSS at a price of £25.8 million. In order to fund part of this purchase, an additional amount of £23 million was borrowed from Barclays Bank plc, which was added to the existing loan amount and consolidated into a single loan facility. The University has entered into a fixed-rate arrangement in order to protect itself against any significant fluctuations in interest rates.

Upon QMSS entering administration, the University ceased to exert substantial control over the affairs of the company, and the remaining QMSS loan facility with Lloyds Banking Group was de-consolidated from the Group accounts.

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 2015. 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 2015.

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 institution participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee administered fund. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme wide contribution rate is set. The institution is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

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 94% of our students have either entered employment or continued with further study.

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.

STRATEGIC REPORT (continued)

Student involvement

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

Environmental issues

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

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, which includes a description of actions undertaken to mitigate risks, 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, infrastructure, human resources and financial strategies are closely aligned. Achievement of the objectives set out in the new strategic plan will allow the University to continue to generate an adequate level of surplus in the short- to medium term and to maintain an adequate level of reserves. The Court carries out regular monitoring of the University's financial sustainability, 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.

DIRECTORS' REPORT

Directors' and officers' liability insurance

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

Members' liability

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

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 2015, trade creditors represented 54 days of relevant expenditure (2014: 59 days). Interest paid under the Late Payment of Commercial Debts (Interest) Act 1998 was £nil (2013/14: £nil).

DIRECTORS' REPORT (continued)

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	4/5	Chairman, Nairn's Oatcakes Limited
Fergus Boden	Appointed 10 June 2013; Demitted office 9 June 2015	4/4	Student President
James Bradshaw	Appointed 1 May 2010	4/5	Former Deputy Vice-Chancellor (Resources & Business Development), University of Sunderland
Professor Graham Caie CBE	Appointed 1 December 2014	4/4	Former Chair, National Library of Scotland Governance Committee, Vice President of the Royal Society of Edinburgh
Ian Calder	Appointed 1 March 2011	4/5	Former Director, Grant Thornton LLP
Craig Cathcart	Appointed 8 February 2011	4/5	Staff Member, Appointed by Senate
Professor Robert Cormack, FRSE	Appointed 1 September 2010	3/5	Former Principal, UHI Millennium Institute
Johnathan Elmer	Appointed 10 June 2013; Demitted office 9 June 2015	2/4	Student Vice-President
Dr Anthony Falconer, OBE	Appointed 1 October 2013	5/5	Retired Consultant Obstetrician and Gynaecologist – Plymouth Hospitals NHS Trust; Former President Royal College of Obstetricians and Gynaecologists.
Professor Alan Gilloran	Appointed 1 January 2010	3/5	Deputy Principal <i>Ex Officio</i>
Dr Anna Gregor, CBE	Appointed 1 November 2010	3/5	Retired Associate Medical Director, NHS Lothian
Dr Lindsay Irvine	Appointed 1 December 2013	4/5	Elected Academic Staff member
Brian Leggat	Appointed 1 October 2009; Retired 30 September 2015	4/5	Retired Solicitor
Jacqueline Macdonald	Appointed 1 October 2013	4/5	Partner, Small Green Spaces
Miller McLean	Appointed 1 January 2011	4/5	Chairman, Adam & Co Group plc, Retired Group Secretary, Royal Bank of Scotland
Margaret McPhail	Appointed 1 December 2008; Retired 30 November 2014	2/2	Former Business Transformation Director, Standard Life plc
Linda McPherson	Appointed 1 October 2014	4/5	Former Senior Director - Food and Drink, Tourism & Textile, Scottish Enterprise
Margaret O'Connor	Appointed 1 October 2014	4/5	Chief Executive, Art in Healthcare
Robert Rae	Appointed 1 March 2011	3/5	Former Chairman, Midlothian & East Lothian Chamber of Commerce
Adam Roe	Appointed 10 June 2015	1/1	Student Vice-President
Judith Sischy, OBE	Appointed 1 September 2010	5/5	Former Chief Executive, Scottish Council of Independent Schools
Heidi Vistisen	Appointed 10 June 2015	1/1	Student President
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; Retired 31 May 2015	4/4	Retired Editor, Times Higher Education Scotland

DIRECTORS' REPORT (continued)

Membership of Court Committees during the year to 31 July 2015

Audit Committee

Name		Attendance record
Miller McLean	Convener from 1 December 2014	4/4
Margaret McPhail	Convener – Retired 30 November 2014	2/2
Dr Anthony Falconer	Appointed from 1 April 2015	1/1
Robert Rae		4/4
Judith Sischy		3/4

Finance & Estates Committee

Name		Attendance record
James Bradshaw	Convener	5/5
Ian Calder		4/5
Professor Alan Gilloran		4/5
Brian Leggat		4/5
Linda McPherson	Appointed from 1 October 2014	3/4
Professor Petra Wend		5/5

Nominations Committee

Name		Attendance record
Keir Bloomer	Convener	4/4
Fergus Boden	Demitted office on 9 June 2015	3/4
Professor Robert Cormack	Appointed from 14 November 2014	2/2
Mark Laing		3/4
Heidi Vistsen	Appointed from 10 June 2015	0/0
Professor Petra Wend		4/4
Sheila Williams	Position passed to alternate staff member of Court from 1 August 2015	3/4
Olga Wojtas	Retired on 31 May 2015	4/4

Senior Management Remuneration Committee

Name		Attendance record
Mark Laing	Convener	3/3
Keir Bloomer		3/3
James Bradshaw		2/3
Brian Leggat		1/3

Disclosure of information to auditors

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

On behalf of the University Court

Keir Bloomer
Chair
2 December 2015

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 Governance 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 2015. 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 2015 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 other categories of persons appointed under the University's Statutory Instrument. The majority are non-executive and the roles of Chair and Vice-Chair of the University Court are separated from the role of the University's chief executive, the Principal and Vice-Chancellor. Under the Statutory Instrument, the University Court delegates to the Vice-Chancellor the organisation, management and discipline of the University. In discharging these functions, the Vice-Chancellor is subject to the general control and direction of, and is accountable to, the University Court but otherwise has all powers and duties of the University Court in relation to these functions. The University maintains a register of interests of members of the University Court and senior officers, which is published on the University website.

CORPORATE GOVERNANCE STATEMENT (continued)

To assist members in the performance of their duties, members of the University Court were offered, and attended, several training and development opportunities during 2014/15. 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 2014/15 included:

- Being an Effective Governor (Leadership Foundation for Higher Education, October 2014)
- Being an Effective Student Governor (Leadership Foundation for Higher Education, September 2014)
- Keynote Speech at CUC Plenary (Committee of University Chairs, April 2015)
- Court Away Days (4 and 5 February 2015)

New members also received a formal induction session supported by the Court Members' Handbook (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. Each of these Committees is formally constituted with terms of reference and comprises mainly lay members of the University Court, one of whom is the Convener.

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 required, 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 and higher education governance.

The Executive Board comprises the Principal, the Deputy Principal and five other senior managers. It receives reports on key performance and risk indicators, and possible control issues are brought to its attention. The Executive Board and the Audit 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.

Higher Education Governance Bill

During the year the Court has monitored and commented upon the Higher Education Governance Bill which is currently being developed through the Scottish Parliament.

CORPORATE GOVERNANCE STATEMENT (continued)

Review of Effectiveness

The Court has established as a Key Performance Indicator of the effectiveness of its performance, and of its Committees, 'full alignment with the Scottish Code of Good Higher Education Governance'. In support of this, the Court undertook a comprehensive internal review of its practices, and in June 2014, it approved the statement that it was compliant with the Scottish Code, and that its KPI for Effectiveness of Court had been achieved. The Court has continued to reflect on the effectiveness of its Governance arrangements in the period to July 2015, and there were a number of key developments over the period under review.

The Privy Council approved an Amendment to the Queen Margaret University, Edinburgh (Scotland) Order of Council in order to provide for the University being in full compliance with the Scottish Code of Good Higher Education Governance ('the Code'). The amendment provided for the possibility of appointment of the Chair from outwith the membership of existing Court members. The amended Order was laid before the Scottish Parliament on 21 August 2015 and came into force on 28th September 2015.

In December 2014, the University Court approved goals and policies concerning the balance of its independent members in terms of equality and diversity as follows:

'Queen Margaret University is committed to ensuring that the University Court (Court), Senate and all committees and decision making bodies of the University are representative of its community. In particular, the University will seek opportunities to address gender balance and to strengthen the representation and voice, amongst its lay membership, of all groups represented by Court.'

At July 2015, the gender balance of membership of Court was 43% female and 57% male.

The University Court has also conducted an externally facilitated review of the effectiveness of its governance arrangements during 2014-15, This has included commissioning the University's internal auditors, KPMG, to conduct a review of its compliance with the Scottish Code, and in particular those elements emphasised in Principle 16 of the Scottish Code concerning assessment against the Statement of Primary Responsibilities and compliance with the Code. The KPMG review confirmed the University's compliance with the Code, identifying three areas of good practice, and three recommendations relating to best practice implementation of the Code's supporting guidelines. The report is published on the University website at:

[http://www.qmu.ac.uk/court/docs/QMU%20HE%20Governance%20FINAL%20\(2\).pdf](http://www.qmu.ac.uk/court/docs/QMU%20HE%20Governance%20FINAL%20(2).pdf)

Additionally, the Court has established an externally facilitated working group to review broader elements of effectiveness of the Court and the Senate. At its meeting in April 2015, the Court established a Court Effectiveness Review Working Group, convened by the Chair of Court and with membership drawn from the broad membership of the Court in addition to an external governance consultant to assist in facilitating the review. The final report of the working group will be submitted to the Court in December 2015.

Throughout 2014/15, 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 and KPI reporting and updates of forecast out-turns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving significant capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels;
- comprehensive financial regulations, detailing financial controls and procedures;
- an independent professional internal audit team whose annual programme is approved by the Audit Committee.

CORPORATE GOVERNANCE STATEMENT (continued)

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
Chair
2 December 2015

Professor Petra Wend
Principal & Vice-Chancellor

RESPONSIBILITIES OF THE UNIVERSITY COURT

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

The University Court is responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the University and enable it to ensure that the financial statements are prepared in accordance with the University's 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
Chair

2 December 2015

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

We have audited the Group and Charitable Company financial statements of Queen Margaret University for the year ended 31 July 2015 which comprise the Group Income and Expenditure Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Statement of Group Total Recognised Gains and Losses, the Statement of Group Historical Cost Surpluses and Deficits, the Statement of Principal Accounting Policies, and the related notes 1 to 30. 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 Charitable Company's trustees and members, as a body, in accordance with our appointment under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Charitable Company's trustees and members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Charitable Company and the Charitable Company's trustees and members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the University Court and Auditor

As explained more fully in the Responsibilities of the University Court, as set out on page 13, the University Court (whose members are trustees for the purpose of charity law and are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

Scope of the Audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group and Charitable Company's affairs as at 31 July 2015 and of the surplus of the Group's income over expenditure and the Group's 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 Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

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

Opinion on other matter prescribed by the Companies Act 2006

- In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on other matters prescribed by applicable regulations

In our opinion:

- funds from the Scottish Funding Council, grants and income for specific purposes and from other restricted funds administered by Queen Margaret University have, in all material respects, been applied only for the purposes for which they were received; and
- funds provided by Scottish Funding Council have been applied in accordance with the requirements of the SFC Financial Memorandum with Higher Education Institutions.

Matters on which we are required to report by exception

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

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

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

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

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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

(A) **Basis of preparation**

The financial statements have been prepared 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 summary of the more important group accounting policies, which have been applied consistently, is set out below.

(B) **Basis of consolidation**

The group financial statements consolidate the financial statements of the University and its subsidiary undertaking for the financial year ended 31 July 2015. The statements also include the results of the special purpose vehicle, QMSS, up to 17 December 2014, the date on which that company went into voluntary administration. Details of these companies are given in note 13. Intra-group sales and profits are eliminated fully on consolidation.

The group 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.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

(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.

(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.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

(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.

(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.

GROUP INCOME AND EXPENDITURE ACCOUNT

For the Year Ended 31 July 2015

Continuing operations	Note	2014/15 £000	2013/14 £000
INCOME			
Scottish Funding Council grants	1	14,885	14,511
Tuition fees and education contracts	2	12,580	12,494
Research and knowledge exchange income	3	3,170	3,113
Other operating income	4	7,626	4,564
Endowment and investment income	5	372	286
Total income		38,633	34,968
EXPENDITURE			
Staff costs	6	22,231	20,936
Other operating expenses	7	9,323	9,343
Depreciation of tangible fixed assets	12	2,332	2,485
Impairment of fixed asset	13	5,679	-
Interest payable	9	1,812	2,741
Total expenditure		41,377	35,505
Surplus / (deficit) after depreciation of fixed assets at valuation and before tax		(2,744)	(537)
Taxation	10	-	-
Surplus / (deficit) after depreciation of fixed assets at valuation and tax		(2,744)	(537)
Minority interest	13	4,076	706
Surplus on continuing operations after depreciation of fixed assets at valuation and tax		1,332	169
Transfer from accumulated income within specific endowments		-	-
Surplus for the year retained within general reserves		1,332	169

STATEMENT OF GROUP HISTORICAL COST SURPLUSES AND DEFICITS

For the Year Ended 31 July 2015

	Note	2014/15 £000	2013/14 £000
Surplus on continuing operations before taxation		1,332	169
Difference between historical cost depreciation charge and the actual charge for the year calculated on the revalued amount	21	136	136
Historical cost surplus before and after taxation		1,468	305

STATEMENT OF GROUP TOTAL RECOGNISED GAINS AND LOSSES

For the Year Ended 31 July 2015

	Note	2014/15 £000	2013/14 £000
Surplus after depreciation of assets at valuation and tax		1,332	169
Appreciation/(depreciation) of endowment asset investments	20	19	(8)
Net income from specific endowments		111	4
Deconsolidation of QMSS		4,970	-
Actuarial gain/(loss) in respect of Local Government Pension Scheme	27	134	(4,419)
TOTAL RECOGNISED GAINS/(LOSSES) RELATING TO THE YEAR		6,566	(4,254)

Reconciliation

Opening reserves and endowments	23,236	27,490
Total recognised gains and losses relating to the year	6,566	(4,254)
Closing reserves and endowments	<u>29,802</u>	<u>23,236</u>

BALANCE SHEETS AS AT 31 JULY 2015

	Note	Group		University	
		2015	2014	2015	2014
		£000	£000	£000	£000
FIXED ASSETS					
Tangible assets	12	90,920	95,531	90,920	66,503
Investments	13	-	-	-	-
		<u>90,920</u>	<u>95,531</u>	<u>90,920</u>	<u>66,503</u>
ENDOWMENT ASSET INVESTMENTS					
	14	460	330	460	330
		<u>460</u>	<u>330</u>	<u>460</u>	<u>330</u>
CURRENT ASSETS					
Debtors	15	1,681	1,900	2,079	2,298
Cash at bank and in hand		9,083	12,824	8,437	10,195
		<u>10,764</u>	<u>14,724</u>	<u>10,516</u>	<u>12,493</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR					
	16	(10,231)	(52,313)	(9,983)	(9,895)
		<u>(10,231)</u>	<u>(52,313)</u>	<u>(9,983)</u>	<u>(9,895)</u>
NET CURRENT ASSETS / (LIABILITIES)		<u>533</u>	<u>(37,589)</u>	<u>533</u>	<u>2,598</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>91,913</u>	<u>58,272</u>	<u>91,913</u>	<u>69,431</u>
CREDITORS : AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR					
	17	(35,054)	(13,779)	(35,054)	(16,142)
		<u>(35,054)</u>	<u>(13,779)</u>	<u>(35,054)</u>	<u>(16,142)</u>
PROVISIONS FOR LIABILITIES AND CHARGES					
	18	(3,522)	(3,501)	(3,522)	(3,501)
		<u>(3,522)</u>	<u>(3,501)</u>	<u>(3,522)</u>	<u>(3,501)</u>
NET ASSETS excluding pension liability		<u>53,337</u>	<u>40,992</u>	<u>53,337</u>	<u>49,788</u>
NET PENSION LIABILITY					
	27	(10,821)	(10,603)	(10,821)	(10,603)
		<u>(10,821)</u>	<u>(10,603)</u>	<u>(10,821)</u>	<u>(10,603)</u>
NET ASSETS including pension liability		<u>42,516</u>	<u>30,389</u>	<u>42,516</u>	<u>39,185</u>

BALANCE SHEETS AS AT 31 JULY 2015 (continued)

	Note	Group		University	
		2015	2014	2015	2014
		£000	£000	£000	£000
Represented by:					
DEFERRED CAPITAL GRANTS	19	12,714	13,017	12,714	13,017
ENDOWMENTS	20				
Expendable		414	284	414	284
Permanent		46	46	46	46
		460	330	460	330
RESERVES					
Revaluation reserve	21	7,535	7,671	7,535	7,671
Income and expenditure account	22	32,628	25,838	32,628	28,770
Pension reserve	22	(10,821)	(10,603)	(10,821)	(10,603)
TOTAL RESERVES		29,342	22,906	29,342	25,838
TOTAL ENDOWMENTS AND RESERVES		29,802	23,236	29,802	26,168
MINORITY INTEREST		-	(5,864)	-	-
TOTAL FUNDS		42,516	30,389	42,516	39,185

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

The financial statements on pages 16 to 41 were approved by the University Court on 2 December 2015 and signed on its behalf by:

Keir Bloomer
(Chair)

Professor Petra Wend
(Principal and Vice-Chancellor)

GROUP CASH FLOW STATEMENT

For the Year Ended 31 July 2015

	Note	2014/15 £000	2013/14 £000
Net cash inflow from operating activities	23	4,090	4,861
Returns on investments and servicing of finance	24	(1,739)	(2,593)
Taxation		-	-
Capital expenditure and financial investment	25	(29,027)	(180)
		<u> </u>	<u> </u>
Cash (outflow) /inflow before use of liquid resources and financing		(26,676)	2,088
Management of liquid resources		-	-
Financing		22,932	(191)
(Decrease)/ increase in cash	26	<u>(3,744)</u>	<u>1,897</u>

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

	2014/15 £000	2013/14 £000
(Decrease)/ increase in cash in the period	(3,744)	1,897
Additional loans drawn down	(23,745)	(753)
Repayment of debt	1,036	944
QMSS loan deconsolidated	42,665	-
	<u> </u>	<u> </u>
Change in net debt	16,212	2,088
Net debt at 1 August	(43,614)	(45,702)
	<u> </u>	<u> </u>
Net debt at 31 July	<u>(27,402)</u>	<u>(43,614)</u>

NOTES TO THE FINANCIAL STATEMENTS

	2014/15 £000	2013/14 £000
1. SCOTTISH FUNDING COUNCIL GRANTS		
Recurrent grant		
Teaching	12,159	11,787
Research	606	589
Specific grants		
Wider access retention premium	586	586
Regional Coherence - Academies programme	312	220
Disabled student premium	52	67
Knowledge transfer	331	290
Scottish Drama Training Network	150	150
Capital maintenance grant released	390	521
Other miscellaneous grants	69	35
Deferred capital grants released (note 19)		
Land & buildings	192	196
Equipment	38	70
	14,885	14,511
2. TUITION FEES AND EDUCATION CONTRACTS		
Scottish higher education students (including old-fee RUK students)	5,776	5,786
Rest of UK (RUK) students – new fees	1,291	932
European Union (excluding UK) students	1,771	1,764
Non-European Union students	3,546	3,800
Other fees	23	23
Education contracts	173	189
	12,580	12,494
3. RESEARCH AND KNOWLEDGE EXCHANGE INCOME		
Research councils	196	352
UK based charities	301	342
UK government and health authorities	2,011	1,858
UK private sector	137	89
European funding	126	20
Other grants & contracts	399	452
	3,170	3,113
4. OTHER OPERATING INCOME		
Residences, catering and conferences	4,538	3,924
Sports centre income	224	205
Released from deferred capital grants (note 19)	73	75
Exceptional release from deferred income	2,450	-
Other income	341	360
	7,626	4,564

NOTES TO THE FINANCIAL STATEMENTS

	2014/15 £000	2013/14 £000
5. ENDOWMENT AND INVESTMENT INCOME		
Interest receivable	73	131
Net return on pension asset/liability	299	155
	372	286

6. STAFF

Staff costs:

Wages and salaries	17,133	16,863
Social security costs	1,280	1,259
Other pension costs	3,388	2,622
Severance costs	430	192
	22,231	20,936

	2014/15 FTE number	2013/14 FTE number
Average full time equivalent staff numbers by major category:		
Academic schools	195	190
Academic services	57	55
Research grants & contracts	30	31
Residences, catering & conferences	23	14
Premises	22	24
Administration & central services	115	103
	442	417

	2014/15 £000	2013/14 £000
Directors' emoluments (including pension contributions)		
Fees for services as members of University Court	-	-
Emoluments (i.e. salaries as members of staff)	471	429
Contributions paid to pension schemes	70	64
Benefits in kind	4	4
Total	545	497

These figures relate to six members of staff (2013/14: six), including the Principal.

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

Professor Petra Wend

Salary	194	173
Non-consolidated adjustment in respect of previous years	3	-
Pension contributions	29	26
Benefits in kind	2	2
Total	228	201

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:-

	2014/15 Number	2013/14 Number
Senior postholders		
£70,001 to £80,000	2	3
£80,001 to £90,000	1	2
£90,001 to £100,000	2	-
£100,001 to £110,000	-	1
£120,001 to £130,000	1	-
£170,001 to £180,000	-	1
£190,001 to £200,000	1	-
Others (including professoriate)		
£70,001 to £80,000	3	2
£80,001 to £90,000	1	1
Compensation for loss of office	2014/15 £000	2013/14 £000
Compensation payable in respect of senior postholders	-	-

7. OTHER OPERATING EXPENSES

	2014/15 £000	2013/14 £000
Residences, catering and conferences operating expenses	376	709
Consumables and laboratory expenditure	1,587	1,291
Examination expenses	74	75
Books and periodicals	565	524
Heat, light and water	805	887
Repairs, general maintenance and minor works	1,377	1,729
Grants to QMU Students' Union	235	235
Research student grants	202	202
Rents and rates	141	135
External auditors' remuneration	29	37
External auditors' remuneration in respect of non-audit services	-	17
Internal auditors' remuneration (all relating to the University)	33	33
Marketing	429	341
Subscriptions	148	143
Postage, stationery, reprographics, telephone	330	301
Travel & subsistence	405	441
Insurance	190	236
Research grants and contracts	905	941
SFC special initiative grant expenditure	184	128
Other expenses	1,308	938
	9,323	9,343

NOTES TO THE FINANCIAL STATEMENTS

8. ANALYSIS OF 2014/15 EXPENDITURE BY ACTIVITY

	Staff costs	Other operating expenses	Depreciation	Impairment adjustment	Interest Payable	Total
	£000	£000	£000	£000	£000	£000
Academic schools	10,788	1,879	54	-	-	12,721
Academic services	2,162	1,796	140	-	-	4,098
Research grants & contracts	1,642	906	-	-	-	2,548
Residences, catering and conferences	485	323	878	5,679	855	8,220
Premises	907	2,664	1,250	-	954	5,775
Administration & central services	4,686	1,508	10	-	3	6,207
Other expenses	1,561	247	-	-	-	1,808
Total per income and expenditure account	22,231	9,323	2,332	5,679	1,812	41,377

The depreciation charge has been funded by:

	£000
Deferred capital grants released	265
General income	2,067
	2,332

	2014/15	2013/14
	£000	£000

9. INTEREST PAYABLE

Interest payable on loan from Barclays Bank plc	954	462
Loan interest payable by Queen Margaret Student Solutions	855	2,276
Interest payable on finance leases	3	3
Net interest payable on pension liability	-	-
	1,812	2,741

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. The amount of the loan reduced to zero on 17 December 2014 when QMSS entered voluntary administration and the University ceased to exert any significant control over the operations of the company.

	2014/15	2013/14
	£000	£000

10. TAXATION

UK Corporation Tax payable	-	-
	-	-

NOTES TO THE FINANCIAL STATEMENTS

11. SURPLUS 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 £3,506,000 (2013/14: £658,000).

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 2014	103,721	7,706	1,166	112,593
Disposals at cost	(36,286)	-	-	(36,286)
Additions at cost	26,638	111	-	26,749
At 31 July 2015	94,073	7,817	1,166	103,056
Depreciation:				
At 1 August 2014	8,508	7,405	1,149	17,062
Written off on disposals	(7,258)	-	-	(7,258)
Provided during the year	2,139	176	17	2,332
At 31 July 2015	3,389	7,581	1,166	12,136
Net book amount at 31 July 2015	90,684	236	-	90,920
Net book amount at 1 August 2014	95,213	301	17	95,531
Analysis of net book amount at 31 July 2015				
Financed by capital grant	12,714	-	-	12,714
Other	77,970	236	-	78,206
	90,684	236	-	90,920

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

The transactions relating to the disposal and addition of Freehold land and buildings represent the sale of the student accommodation asset from the administrator of QMSS to the University on 17 December 2014. The figure for additions includes fees and works associated with and consequent upon the sale and purchase.

NOTES TO THE FINANCIAL STATEMENTS

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 2014	67,435	7,706	1,166	76,307
Additions at cost	26,638	111	-	26,749
At 31 July 2015	94,073	7,817	1,166	103,056
Depreciation:				
At 1 August 2014	1,250	7,405	1,149	9,804
Provided during the year	2,139	176	17	2,332
At 31 July 2015	3,389	7,581	1,166	12,136
Net book amount at 31 July 2015	90,684	236	0	90,920
Net book amount at 1 August 2014	66,185	301	17	66,503
Analysis of net book amount at 31 July 2015				
Financed by capital grant	12,712	-	-	12,712
Other	77,972	236	-	78,208
	90,684	236	-	90,920

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.

13. INVESTMENTS Subsidiary Undertaking

Name of undertaking	Country of incorporation and registration	Description of shares held	Proportion of nominal value of shares held	Cost at 1 August 2014 and 31 July 2015
			%	£
QMU Enterprises Ltd	Scotland	Ordinary £1 shares	100	100
				<u>100</u>

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

NOTES TO THE FINANCIAL STATEMENTS

13. INVESTMENTS (continued)

Associated undertaking Queen Margaret Student Solutions

	2014/15	2013/14
Proportion of ordinary shares held	Nil	Nil
Proportion of voting rights held	Nil	One third
Nature of business	N/A	Residences
Date of financial information	N/A	31 July 2014

The student residences on the University 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 was controlled in equal shares by the three partner organisations. Since the risks and rewards of ownership of the student residences fell ultimately to the University, the results of QMSS have, until 2014, been consolidated into the Group financial statements, with the minority interest relating to the share of reserves attributable to the other partners being extracted. The student accommodation asset has, until 2014, been included within the group's fixed assets.

On 17 December 2014, the Directors of QMSS agreed that the company should enter into voluntary administration, and PwC was appointed as administrator. At this point, the University ceased to have a controlling interest in QMSS, and it has therefore been necessary to exclude any transactions undertaken by QMSS or its administrator on or after this date from the Group accounts. The Group accounts for 2014/15 thus include the transactions undertaken by QMSS up to 17 December 2014. Prior to entering administration, the Directors of QMSS determined that an amount of £25.8 million represented a reasonable valuation of the asset, and an impairment adjustment equivalent to the difference between the carrying value of the asset and £25.8 million was recorded in the QMSS accounts. This impairment adjustment, amounting to £5.679 million, is reflected in the Group Income & Expenditure account. The University subsequently agreed to purchase the student accommodation asset from the administrator at a price of £25.8 million.

At the point when QMSS entered voluntary administration, the loan from Lloyds Banking Group also ceased to be reflected in the Group accounts, and is therefore not included in the Group balance sheet at 31 July 2015.

Group and University

14. ENDOWMENT ASSET INVESTMENTS	2014/15	2013/14
	£000	£000
Balance at 1 August	330	334
Additions	148	-
Disposals	(34)	-
Net appreciation less depreciation	19	(8)
(Decrease)/increase in cash balances	(3)	4
Balance at 31 July	460	330
Represented by:	2015	2014
	£000	£000
Fixed & variable interest stocks	55	9
Equities	99	123
Due from general fund	245	134
Bank balances	61	64
Total endowment asset investments at market value	460	330
Fixed & variable interest stocks and equities at cost	143	127

NOTES TO THE FINANCIAL STATEMENTS

15. DEBTORS

Amounts falling due within one year:

	Group		University	
	2015 £000	2014 £000	2015 £000	2014 £000
Trade debtors	707	777	615	702
Prepayments and accrued income	974	1,123	943	1,101
Amounts owed by subsidiaries	-	-	521	495
	1,681	1,900	2,079	2,298

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		University	
	2015 £000	2014 £000	2015 £000	2014 £000
Secured loans (see note 17 and note 26)	1,492	42,738	1,492	652
Trade creditors	1,773	1,460	1,773	1,390
Social security and other taxation payable	454	417	416	417
Accruals and deferred income	6,252	7,547	6,043	7,175
Finance lease commitments due within one year	15	17	14	17
Amount due to endowment funds	245	134	245	134
Provision for accumulated losses in subsidiary	-	-	-	-
Amounts owed to subsidiary	-	-	-	110
	10,231	52,313	9,983	9,895

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

	Group		University	
	2015 £000	2014 £000	2015 £000	2014 £000
Secured loan – Barclays Bank plc	35,054	13,764	35,054	13,764
Secured loan – Lloyds Banking Group	-	-	-	-
Finance lease commitments	-	15	-	15
Deferred income	-	-	-	2,363
	35,054	13,779	35,054	16,142
Analysis of secured loans:-				
Due between one and two years	1,492	652	1,492	652
Due between two and five years	4,475	1,956	4,475	1,956
Due in five years or more	29,087	11,156	29,087	11,156
	35,054	13,764	35,054	13,764

The existing bank loan from Barclays Bank plc was refinanced in December 2014 in order to accommodate the additional expenditure associated with the purchase of the student accommodation. The agreed facility for the loan is £37.2 million, and has a final maturity date of 17 December 2024. The loan is secured over the campus site at Musselburgh.

All of the finance lease commitments, which are secured over the leased assets, fall due for payment within one year.

NOTES TO THE FINANCIAL STATEMENTS

18. PROVISIONS FOR LIABILITIES AND CHARGES

Group and University

	Unfunded Pensions £000
At 1 August 2014	3,501
Utilised in year	(246)
Transfer from Income & Expenditure account	267
At 31 July 2015	3,522

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 2015, on the basis of valuation prescribed by FRS 17, and using the same set of assumptions as are set out in note 27 in relation to the valuation of the Local Government Pension Scheme.

19. DEFERRED CAPITAL GRANTS

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

Group and University	SFC £000	SEEL £000	Other £000	TOTAL £000
At 1 August 2014				
Buildings	9,396	1,080	2,503	12,979
Equipment	38	-	-	38
Total	<u>9,434</u>	<u>1,080</u>	<u>2,503</u>	<u>13,017</u>
Receivable during year:				
Buildings	-	-	-	-
Equipment	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Released to income and expenditure account:				
Buildings	192	22	51	265
Equipment	38	-	-	38
Total	<u>230</u>	<u>22</u>	<u>51</u>	<u>303</u>
At 31 July 2015				
Buildings	9,204	1,058	2,452	12,714
Equipment	-	-	-	-
Total	<u>9,204</u>	<u>1,058</u>	<u>2,452</u>	<u>12,714</u>

NOTES TO THE FINANCIAL STATEMENTS

20. ENDOWMENTS

Group and University

	Unrestricted £000	Restricted Expendable £000	Restricted Permanent £000	Restricted Total £000	Total £000
Balance at 1 August 2014	-	284	46	330	330
Appreciation of endowment asset investments	-	19	-	19	19
Income for year	-	263	-	263	263
Expenditure for year	-	(152)	-	(152)	(152)
At 31 July 2015	-	414	46	460	460
Represented by:					
Capital value	-	-	43	43	43
Accumulated income	-	414	3	417	417
	-	414	46	460	460

21. REVALUATION RESERVE

	Group		University	
	2015 £000	2014 £000	2015 £000	2014 £000
At 1 August	7,671	7,807	7,671	7,807
Revaluation of land and buildings		-	-	-
Release to general reserve (note 22)	(136)	(136)	(136)	(136)
At 31 July	7,535	7,671	7,535	7,671

NOTES TO THE FINANCIAL STATEMENTS

22. GENERAL RESERVE

	Group		University	
	2015 £000	2014 £000	2015 £000	2014 £000
At 1 August	15,235	19,349	18,167	21,928
Surplus for year	1,332	169	3,370	522
Transferred from revaluation reserve (note 21)	136	136	136	136
Actuarial gain/(loss) in pension scheme	134	(4,419)	134	(4,419)
Deconsolidation of QMSS	4,970	-	-	-
At 31 July	21,807	15,235	21,807	18,167
Represented by:-				
Income and expenditure account				
At 1 August	25,838	25,365	28,770	27,944
Surplus for the year	1,332	169	3,370	522
Transferred from revaluation reserve (note 21)	136	136	136	136
Transfer from/(to) pension reserve	352	168	352	168
Deconsolidation of QMSS	4,970	-	-	-
At 31 July	32,628	25,838	32,628	28,770
Pension reserve				
At 1 August	(10,603)	(6,016)	(10,603)	(6,016)
Current service cost	(1,879)	(1,498)	(1,879)	(1,498)
Past service cost	-	(26)	-	(26)
Employer contributions	1,174	1,148	1,174	1,148
Contributions in respect of unfunded benefits	54	53	54	53
Net return on assets	299	155	299	155
Transfer from/(to) income & expenditure account	(352)	(168)	(352)	(168)
Actuarial gains / (losses)	134	(4,419)	134	(4,419)
At 31 July	(10,821)	(10,603)	(10,821)	(10,603)
Summary				
Income and expenditure account	32,628	25,838	32,628	28,770
Pensions reserve	(10,821)	(10,603)	(10,821)	(10,603)
At 31 July	21,807	15,235	21,807	18,167

NOTES TO THE FINANCIAL STATEMENTS

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

	2014/15	2013/14
	£000	£000
Surplus/(deficit) before tax	(2,744)	(537)
Pension costs less contributions payable	651	323
Depreciation (note 12)	2,332	2,485
Impairment adjustment	5,679	-
Deferred capital grants released to income (note 19)	(303)	(341)
Deferred income released	(2,450)	-
Investment income and interest receivable	(372)	(286)
Interest payable	1,812	2,741
Decrease in operating debtors	219	85
Increase/ (decrease) in operating creditors	(755)	272
Increase/(decrease) in provisions	21	119
Net cash inflow from operating activities	4,090	4,861

24. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

Net income from endowments	-	17
Other interest received	73	131
Interest paid	(1,812)	(2,741)
Net outflow from returns on investments and servicing of finance	(1,739)	(2,593)

25. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

Tangible fixed assets acquired	(26,731)	(167)
Endowment asset investments acquired	(37)	(73)
QMSS cash paid to Lloyds Bank on entering administration	(2,293)	-
Total fixed and endowment asset investments acquired	(29,061)	(240)
Receipts from sales of endowment assets	34	60
Net cash outflow from capital expenditure & financial investment	(29,027)	(180)

26. ANALYSIS OF CHANGES IN NET DEBT

	At 31 July 2014 £000	Cash Flows £000	Non-cash Flows £000	At 31 July 2015 £000
Cash at bank and in hand	12,824	(3,741)	-	9,083
Endowment assets	64	(3)	-	61
	<u>12,888</u>	<u>(3,744)</u>	<u>-</u>	<u>9,144</u>
Financing				
Debt due within one year	(42,738)	(1,419)	42,665	(1,492)
Debt due between one and five years	(2,608)	(4,850)	-	(7,458)
Debt due after more than five years	(11,156)	(16,440)	-	(27,596)
Total financing	<u>(56,502)</u>	<u>(22,709)</u>	<u>42,665</u>	<u>(36,546)</u>
Change in net debt	<u>(43,614)</u>	<u>(26,453)</u>	<u>42,665</u>	<u>(27,402)</u>

NOTES TO THE FINANCIAL STATEMENTS

27. PENSIONS AND SIMILAR OBLIGATIONS

The University's employees belong to three principal pension schemes, the Scottish Teachers Superannuation Scheme (STSS), the Local Government Pension Scheme (LGPS) and the Universities Superannuation Scheme (USS). The total pension cost for the year was £3,388,000 (2013/14: £2,622,000).

	Group and University	
	Year ended 31 July 2015	Year ended 31 July 2014
	£000	£000
<i>The total pension charge is analysed as follows:-</i>		
Lothian Pension Fund (LGPS)	2,004	1,320
Scottish Teachers Superannuation Scheme	1,203	1,128
Universities Superannuation Scheme	181	174
	3,388	2,622
	3,388	2,622

Estimated employers' pension contributions for the year to 31 July 2016 are £3,518,000.

A) Local Government Pension Scheme (LGPS)

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

The following information is based upon a full actuarial valuation of the fund at 31 March 2014 updated to 31 July 2015 by a qualified independent actuary, Hymans Robertson LLP.

Assumptions at	31 July 2015	31 July 2014	31 July 2013
Pension increase rate	2.6%	2.7%	2.8%
Salary increase rate	4.5%	5.0%	5.1%
Expected return on assets	3.6%	6.0%	5.9%
Discount rate	3.6%	4.0%	4.6%

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

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 2015 No. of years	31 July 2014 No. of years
<i>Current pensioners</i>		
Males	22.1	20.4
Females	23.7	22.8
<i>Future pensioners</i>		
Males	24.2	22.6
Females	26.3	25.4

NOTES TO THE FINANCIAL STATEMENTS

27. 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 2015	Value at 31 July 2015	Long term rate of return at 31 July 2014	Value at 31 July 2014	Long term rate of return at 31 July 2013	Value at 31 July 2013
		£000		£000		£000
Equities	3.6%	26,995	6.5%	28,862	6.4%	26,782
Bonds	3.6%	7,362	3.3%	2,923	3.8%	2,343
Property	3.6%	3,681	4.7%	2,923	4.6%	2,678
Cash	3.6%	2,863	3.6%	1,827	3.4%	1,674
Total		40,901		36,535		33,477

Analysis of the amount shown in the balance sheet

	Value at 31 July 2015	Value at 31 July 2014	Value at 31 July 2013	Value at 31 July 2012	Value at 31 July 2011
	£000	£000	£000	£000	£000
Estimated employer assets (A)	40,901	36,535	33,477	27,454	27,399
Present value of scheme liabilities	(50,918)	(46,362)	(38,740)	(35,505)	(32,052)
Present value of unfunded liabilities	(804)	(776)	(753)	(776)	(863)
Total value of liabilities (B)	(51,722)	(47,138)	(39,493)	(36,281)	(32,915)
Net pension liability (A) – (B)	(10,821)	(10,603)	(6,016)	(8,827)	(5,516)

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

	Year ended 31 July 2015	Year ended 31 July 2014
	£000	£000
Current service cost	1,879	1,498
Past service cost	-	26
Losses on curtailments and settlements	-	-
Total operating charge	1,879	1,524

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

	Year ended 31 July 2015	Year ended 31 July 2014
Expected return on employer assets	(2,207)	(1,995)
Interest on pension scheme liabilities	1,908	1,840
Net (return)	(299)	(155)
Net income and expenditure account charge	1,580	1,369

NOTES TO THE FINANCIAL STATEMENTS

27. PENSIONS AND SIMILAR OBLIGATIONS (continued)

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

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

	Year ended 31 July 2015	Year ended 31 July 2014
	£000	£000
Actual return less expected return on pension scheme assets	1,593	371
Experience gains and losses arising on the scheme liabilities	243	(3)
Changes in financial assumptions underlying the present value of the scheme liabilities	(1,702)	(4,787)
Actuarial gain /(loss) recognised in STRGL	134	(4,419)

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 2015	31 July 2014
	£000	£000
Opening defined benefit obligation	47,138	39,493
Current service cost	1,879	1,498
Interest cost	1,908	1,840
Contributions by members	428	418
Actuarial losses	1,459	4,790
Past service costs	-	26
Losses on curtailments and settlements	-	-
Unfunded benefits paid	(54)	(53)
Benefits paid	(1,036)	(874)
Closing defined benefit obligation	51,722	47,138

Analysis of movement in the market value of the scheme assets

	31 July 2015	31 July 2014
	£000	£000
Opening fair value of employer assets	36,535	33,477
Expected return on assets	2,207	1,995
Contributions by members	428	418
Contributions by employer	1,174	1,148
Contributions in respect of unfunded benefits	54	53
Actuarial (losses)/gains	1,593	371
Unfunded benefits paid	(54)	(53)
Benefits paid	(1,036)	(874)
Closing fair value of employer assets	40,901	36,535

NOTES TO THE FINANCIAL STATEMENTS

27. PENSIONS AND SIMILAR OBLIGATIONS (continued)

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

History of experience gains and losses:-	Year ended 31 July 2015 £000	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000	Year ended 31 July 2012 £000	Year ended 31 July 2011 £000
Difference between the expected and actual return on assets	1,593	371	3,861	(2,418)	1,091
Value of assets	40,901	36,535	33,477	27,454	27,399
Percentage of assets	3.9%	1.0%	11.5%	(8.8%)	4.0%
Experience gains/(losses) on liabilities	243	(3)	6	2,354	(45)
Present value of liabilities	51,722	47,138	39,493	36,281	32,915
Percentage of the present value of liabilities	0.5%	(0.0)%	0.0%	6.5%	(0.1)%
Actuarial gains/(losses) recognised in the STRGL	134	(4,419)	2,986	(3,457)	1,077
Present value of liabilities	51,722	47,138	39,493	36,281	32,915
Percentage of the present value of liabilities	0.3%	(9.4)%	7.6%	(9.5%)	3.3%

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 University has no obligation for other employers' obligations to the multi-employer scheme.

The last audited full actuarial and funding valuation of the scheme was carried out at 31 March 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 dependant 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%

NOTES TO THE FINANCIAL STATEMENTS

27. PENSIONS AND SIMILAR OBLIGATIONS (continued)

C) Universities Superannuation Scheme (USS)

The company participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. The University is required to contribute a specified percentage of payroll costs to the pension scheme to fund the benefits payable to the University's employees. In 2015, the percentage was 16% (2014: 16%). The University is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme.

The total cost charged to the consolidated income and expenditure account is £180,000 (2014: £174,000) and included in note 6. There was neither a prepayment nor an accrual at the end of the financial year in respect of these contributions. The disclosures below represent the position from the scheme's financial statements. The 2014 valuation has recently been finalised and the audit process is in progress. Therefore the latest available audited triennial actuarial valuation of the scheme was at 31 March 2011 ("the valuation date"), which was carried out using the projected unit method. The 2014 valuation indicates that employer contributions will increase to 18% from 1 April 2016.

The 2011 valuation 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. At the valuation date, the value of the assets of the scheme was £32.4 billion and the value of the scheme's technical provisions was £35.3 billion indicating a shortfall of £2.9 billion. The assets therefore were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings.

FRS 17 liability numbers have been produced using the following assumptions:

	2015	2014
Discount rate	3.3%	4.5%
Pensionable salary growth.	3.5 % in the first year, thereafter 4.0%	4.4%
Price inflation (CPI)	2.2%	2.6%

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

Male members' mortality	SINA ["light"] YoB tables – No age rating
Female members' mortality	SINA ["light"] YoB tables – rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience. To allow for further improvements in mortality rates the CMI 2009 projections with a 1.25% pa long term rate were also adopted for the 2014 FRS17 figures, for the 2015 figures the long term rate has been increased to 1.5% and the CMI 2014 projections adopted, and the tables have been weighted by 98% for males and 99% for females. The current life expectancies on retirement at age 65 are:

	2015	2014
Males currently aged 65 (years)	24.2	23.7
Females currently aged 65 (years)	26.3	25.6
Males currently aged 45 (years)	26.2	25.5
Females currently aged 45 (years)	28.6	27.6

Existing benefits	2015	2014
Scheme assets	£49.0 billion	£41.6 billion
FRS17 liabilities	£67.6 billion	£55.5 billion
FRS17 deficit	£18.6 billion	£13.9 billion
FRS17 funding level	72%	75%

NOTES TO THE FINANCIAL STATEMENTS

27. PENSIONS AND SIMILAR OBLIGATIONS (continued)

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 2015, on the basis of valuation prescribed by FRS17. The total provision in respect of this liability is £3.522 million (2014: £3.501 million).

28. 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.

29. HARDSHIP AND CHILDCARE FUNDS

	2014/15 £000	2013/14 £000
HARDSHIP FUND (undergraduate and postgraduate)		
Balance at 1 August	-	-
Amounts received from Student Awards Agency for Scotland	218	212
Amount vired in from Childcare Fund	52	70
	<u>270</u>	<u>282</u>
Disbursed to students	(270)	(270)
Refunded to Student Awards Agency for Scotland	-	(12)
	<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	121	140
	<u>121</u>	<u>140</u>
Disbursed to students	(72)	(65)
Amount vired out to Hardship Fund	(49)	(70)
Administration costs	-	-
Refunded to Student Awards Agency for Scotland	-	(5)
	<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.

30. CONTINGENT LIABILITIES AND ASSETS

A contingent liability exists in relation to the pension valuation recovery plan of the Universities Superannuation Scheme (USS), since the University is an employer of members within the scheme. The contingent liability relates to the amount generated by past service of current members and the associated proportion of the deficit. Given that the scheme is a multi-employer scheme and the University is unable to identify its share of the underlying assets and liabilities, the contingent liability is not recognised as a provision on the balance sheet. The associated receivable from the scheme in respect of the reimbursement of the University's expenditure is similarly not recognised.



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