Queen Margaret University, Edinburgh

Strategic Report and Financial Statements

for the year ended 31st July 2020

Registered No. SC007335

Scottish Charity No. SC002750

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PRINCIPAL'S REPORT
for the year ended 31 July 2020

This year was always set to be one of change and development at QMU, following the retirement of Professor Petra Wend, my succeeding her, our plans to refresh our strategy, and Brexit. But none of us could have anticipated the level of change that we have witnessed over the last few months. The COVID-19 pandemic has brought immense disruption and challenges. But it has also brought out the best in QMU, fostering within the University a deepened sense of purpose and community spirit as well as a determination to continue to function and to support our students and staff.

While we faced a challenging financial target for 2019/20, our student numbers this year have been higher than planned thanks to carefully considered and concerted work across the University. COVID-19 certainly tested, and continues to test, our finances and our resilience, but we have fared better than we might have expected through the pandemic so far. Excellent cross-university working, creative approaches to problem solving and the strong interest in our recently refreshed course portfolio have all contributed to this.

When I joined the University in October 2019, I was keen to build and reinforce our collective sense of ambition and confidence in meeting the challenges and opportunities ahead of us. Over the autumn and early winter, staff across the University worked with me and the Senior Leadership Team to refresh our strategy, which we launched in early 2020. Our Strategic Plan 2020-2025 sets out how we will help to create a better society through teaching, learning and innovation and holds true to the ethos of social justice upon which this institution was founded. It also demonstrates how we will contribute to society's recovery following COVID-19.

When COVID forced us to move our operations online in the spring, we did everything possible to continue to deliver the education and support that our students need and deserve, whilst also making sure that we supported our staff. Indeed throughout the pandemic, I have been deeply impressed by the positivity, commitment and creativity of our staff as they adapted to the new (and ever evolving) situation. As you would expect given our focus on social justice and our strength in health sciences, we have been playing our full part in the response to the pandemic. Our staff and students have been delivering services in the NHS and social care at this time of unprecedented need; our academic experts have shaped COVID-related policy development; and right across our academic specialisms, students, staff and graduates have been responding to the pandemic through volunteering and fundraising. And they stand ready, of course, to support the rebuilding efforts.

While we have adapted our operations because of the pandemic, we have continued to deliver research and knowledge exchange projects and engage with partnership initiatives, albeit we have had to put some projects on hold. In addition to continuing with pre-existing research and knowledge exchange work as far as possible, we have been successful in two bids to the Scottish Government for coronavirus-related research. In one of these projects, we are exploring the impacts of COVID-19 restrictions on loneliness amongst asylum seekers and refugees. The other is focused on supporting recovery from illness experienced in isolation due to a pandemic. Our Institute for Global Health and Development, alongside six other universities leading in global health research, has contributed to COVID-19 guidance for health ministries around the world, following a request from the UK Department for International Development and the National Institute for Health Research.

One positive aspect of the response to the pandemic has been a strengthened commitment to partnership across higher education and well beyond. We have worked closely with local and national partners in our preparation for the current academic year, and building on our existing college partnerships, we have in this year expanded the range of courses delivered through such partners. The most recent example is our new BA (Hons) Creative Enterprise, delivered through Fife College. Internationally, the pandemic has underlined the importance of our international inter-connectedness, and our solidarity with the international partners with whom we deliver our courses across the world.

Having successfully launched our initial teacher education programmes in 2019, in 2020 we launched a degree in Paramedic Science. Run in partnership with the Scottish Ambulance Service, this new BSc Paramedic Science programme reflects the requirement that all paramedics entering the profession from 2021 must have a degree.

Looking beyond COVID, Brexit remains a real challenge and cause for concern. We have, though, been planning carefully for this, and, as events unfold, we are as well prepared as it is possible to be in the circumstances. One positive development on the international front, however, has been the re-instatement of post-study work visas for international students, through the new Graduate Route. This makes make study in the UK more attractive to international students than it has been since a similar scheme was withdrawn in 2012. Already we are seeing renewed interest from international markets.

Whilst there are real challenges ahead in recovering from the significant loss of income directly resulting from the pandemic and the outlook for public finances looks difficult, there are a number of reasons to be positive about the future of QMU. It will not be easy; difficult issues lie ahead, but our academic portfolio, our expertise and our ability to adapt mean we are well positioned to respond to the needs of communities in Scotland, the UK and countries around the world. We have the potential to emerge with a stronger than ever sense of how we can help to create a better society through education, research, innovation and partnership and how we can provide a supportive and creative learning environment in which students thrive. With our focus on addressing the issues facing society through education and research, and our strong social justice ethos, we look forward to playing our part as society re-adjusts and re-calibrates beyond the pandemic.

Sir Paul Grice
Principal and Vice-Chancellor
February 2021

STRATEGIC REPORT

Status

Queen Margaret University, Edinburgh is an autonomous Scottish higher education institution. The University's governing instruments and arrangements are set out under the Queen Margaret University, Edinburgh (Scotland) Order of Council 2007, amended from 1 October 2019 through the Queen Margaret University, Edinburgh (Scotland) Amendment Order of Council 2019. The 2007 Order is made under section 45 of the Further and Higher Education (Scotland) Act 1992. The University is registered under the Companies Acts as a company limited by guarantee, with its registered office at Queen Margaret University Drive, Musselburgh, East Lothian, EH21 6UU. The University has been entered into the Scottish Charity Register and is entitled, in accordance with section 13(1) of the Charities and Trustee Investment (Scotland) Act 2005, to refer to itself as a Charity registered in Scotland.

Scope of the financial statements

The financial statements presented on pages 18 to 42 comprise the consolidated results of the University and its subsidiary company, QMU Enterprises Limited. QMU Enterprises Limited undertakes commercial consultancy work, utilising the expertise of the University's academic and technical staff, and also deals with vacation letting of the University's student accommodation.

The financial statements have been prepared on a going concern basis in accordance with Financial Reporting Standard 102 (FRS 102) and the Statement of Recommended Practice – Accounting for Further and Higher Education 2015 (SORP 2015), with the Accounts Direction issued by the Scottish Funding Council (SFC) and with the United Kingdom Companies Acts. Information on the process which has been undertaken to inform the decision to prepare the financial statements on a going concern basis is set out in section (A) in the statement of principal accounting policies.

Development of strategic plan

Following the appointment of a new Principal in October 2019, an exercise was undertaken to review and refresh the existing strategic plan. This resulted in the publication, in summer 2020, of a revised strategic plan covering the period from 2020 to 2025. The revised plan remains rooted in the University's core values, and sets out a number of strategic goals, along with targets to be achieved by the end of the plan period in 2025. The strategic plan is supported by a more detailed delivery plan, which sets out specific actions, along with timescales and owners, which will enable the achievement of the strategic plan goals and targets. A key element of the plan remains the inclusion of key performance indicators which the University Court uses to monitor progress towards the achievement of the goals set out in the plan (both financial and non-financial). The University also has processes in place to manage the risks which might inhibit this achievement.

Results for the year

The Group's consolidated results for the year to 31 July 2020 are summarised as follows:-

	2019/20 £million	**2018/19 £million**
Total income	40.4	39.5
Total expenditure	(40.9)	(45.5)
(Deficit) for the year	**(0.5)**	**(6.0)**
Actuarial (loss) in respect of pension schemes	(14.4)	(7.4)
Unrealised surplus on revaluation of land and buildings	5.2	30.6
Total comprehensive (expenditure)/ income for the year	**(9.7)**	**17.2**

The main changes in the underlying outturn position compared to 2018/19 were:-

- An increase in SFC grant of £1.0 million, including additional funding for the first year of the new initial teacher education programme;
- A reduction in other income of £0.3 million, which includes a one-off receipt of £1.4 million in respect of reimbursement of previously incurred infrastructure costs, offset by a reduction in income of £1.7 million, largely as a result of cancellation of summer school business in 2020 and accommodation fee refunds as a result of the COVID-19 pandemic;
- Staff costs remained constant. The annual pay inflation and incremental drift was offset by savings made by the transformation exercise and turnover savings;
- An decrease in depreciation of £0.4 million due mainly to the revaluation of the main campus and residences in 2019/20;

Additional information on the adjustments relating to actuarial losses on pension schemes and to the revaluation of land and buildings is provided in notes 21 and 12 respectively.

QMU Enterprises Ltd generated a profit of £220,000 (2018/19: £347,000), which was passed to the University under deed of covenant.

STRATEGIC REPORT (continued)

Cash flows and liquidity
The result for the year, adjusted for the effect of non-cash items and interest, was a net cash inflow of £4.3 million on operating activities (2018/19, £3.7 million inflow). Overall cash balances increased by £0.690 million (2018/19; £0.002 million increase). Cash balances at 31 July 2020 of £8.8 million (2019: £8.1 million) represented 90 days' expenditure (2019: 74 days).

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

- The impact of the COVID-19 pandemic on the University's operations and financial position.
- The full implications of the UK's exit from European Union are still unclear. However, it is likely that this will have an adverse impact on access for both students and staff from EU member states, and will introduce additional hurdles in accessing certain funding for research and other activities.
- Funding from government through the Scottish Funding Council (SFC), the University's main source of income, is likely to suffer from further real-terms reductions over the next few years as a consequence of spending cuts throughout the public sector.
- Recruitment of international students continues to be challenging, largely as a result of difficulties faced by international students in obtaining visas to study in the UK, although this may be mitigated to some extent by the reinstatement of the post-study work visa.
- Pressure on staff costs will 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' pension contributions.

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 Senior Leadership Team and the Audit & Risk Committee as well as being discussed by the University Court. The Court also undertakes, from time to time, an exercise to agree its appetite for risk, and to ensure that residual risks, after the application of mitigating actions, sit within the agreed tolerance.

Financial sustainability and going concern
The University Court has assessed the financial position of the University for the year ended 31 July 2020. The assessment period considered is at least 12 months from the date of signing the accounts, that is, 10 February 2021. The University Court has assessed a number of factors as set out below and has concluded that there is an expectation that the University has adequate financial resources to continue to operate for the foreseeable future.

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

- At the balance sheet date the University had net current assets of £4.022 million.
- Cash balances at 31 July 2020 amounted to £8.772 million. The University had liquid reserves (cash and investments) as at 31 July 2020 equivalent to approximately three months' operating cash requirements.
- In the year to 31 July 2020 the University made an underlying deficit of £1.040 million, but generated positive net cash from operating activities of £4.283 million. The University cash flow forecast shows an increasing cash trajectory, and no additional financing will be required to meet its liabilities.
- At the balance sheet date the University had external financing liabilities of £29.087 million which are payable to Barclays Bank plc.
- All bank loan covenants were complied with for the year ended 31 July 2020.
- In relation to future years, we have considered headroom against covenants across a number of scenarios. We consider that, on the basis of current forecasts, there is sufficient headroom on the Debt Servicing and Minimum Cash Balance covenants. In relation to the potential impacts on income levels arising from the COVID-19 pandemic, a number of the scenarios, if they were to happen, would result in a breach of the Operational Leverage covenant for the year to 31 July 2021. The University has therefore obtained a relaxation of the ratio used to calculate this covenant from Barclays Bank plc, which will allow sufficient headroom to ensure that this covenant can be met.
- Confirmation has been provided by the Scottish Funding Council that it intends to continue to provide grant funding for at least the next twelve months following approval of the financial statements.
- Taking account of the business risks facing the University, we believe that the University and the group are well placed to continue to manage their business risks successfully.
- We have considered the impacts of COVID-19, in particular focussing on the threats to current and future income streams. Particular risks have been identified as a threat to income from international and EU student tuition fees, and to summer school income. A further risk relates to the possibility of reduced term-time income from student accommodation resulting from a delay in the start of face-to-face teaching for some programmes for semester two of 2020/21. The impact of these risks will be informed largely by the length of time for which COVID restrictions remain in place, and in particular whether there are still significant restrictions in place by the start of the 2021/22 academic session.
- We have modelled a number of scenarios, including a severe downside case on our forecasts, including stress testing our cash flow forecasts, and considered mitigating actions which could be put in place to reduce the negative financial impact.

STRATEGIC REPORT (continued)

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

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

The second indicator has been adapted from the basket of financial indicators recommended by the FSSG as it is a more appropriate measure for the University, given its relatively high level of borrowings as a proportion of its turnover. The targets are also set at a level which will allow compliance with banking covenants. The results of the annual review undertaken in February 2021, based on a rolling five-year period, were as follows:-

Indicator	**Target**	**Average**
EBITDA	12%	10.5%
Net cash flow from operating activities less interest payable as a percentage of turnover	6%	7.6%

The EBITDA average percentage is below the target (and reduced from the 2018/19 figure of 11.2%), reflecting the financial disruption caused by COVID-19 over 2019/20 and 2020/21. The *"Net cash flow from operating activities less interest payable as a percentage of turnover"* indicator however remains above target, reflecting the University's relatively strong cash position although reduced from the 2018/19 figure of 8.5%.

Borrowings
Borrowings at 31 July 2020 amounted to £29.1 million, (31 July 2019, £30.6 million) relating entirely to a secured loan facility with Barclays Bank plc taken out to fund the campus development at Musselburgh.

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

The Lothian Pension Fund, which is part of the Local Government Pension Scheme (LGPS), is a multi-employer defined benefit scheme. The scheme had a deficit at 31 July 2020. The Fund trustees have, in recent years, applied increases to the level of employers' and employees' contributions to the scheme in order to recover this deficit position. The University's share of the fund deficit, as calculated by the scheme actuary, has been shown as a liability at 31 July 2020 of £31.0 million (2019 : £15.3 million).

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

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

Further details on pension arrangements are set out in note 21 to the financial statements.

Social inclusion
Queen Margaret University aims to promote entry to, and provide education at, undergraduate and postgraduate level to a diverse range of students, whatever their background. In assessing candidates for admission to the University, we are committed to the principles of fairness, transparency, and widening participation. Our Contextual Admissions Policy commits to making offers to identified groups where we recognise that a range of factors may have impacted on attainment. We offer a range of recruitment, outreach, pre and post entry activities to raise aspiration, encourage access and maximise retention from under-represented groups in line with our Student Experience strategy, Mainstreaming Report and Equality Outcomes, and underpinned by the University's Outcome Agreement with the Scottish Funding Council.

STRATEGIC REPORT (continued)

Student satisfaction
The University participates in the National Student Survey (NSS). The 2020 institutional results show an overall satisfaction score of 82.6%, up from 82.3% in 2019. A particular highlight is the considerable increase in the proportion of students agreeing that the Students' Union effectively represents students' academic interests (up 5%). This sees it move up to rank fifth in Scotland, an impressive gain of 6 places compared to the previous year.

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

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

Future developments
In order to address the risks set out above, and also to take advantage of further opportunities as they arise, the University is continuing to focus on ensuring that its academic, infrastructure, digital, human resources and financial strategies are closely aligned. A review of the academic portfolio undertaken in 2018 has resulted in the introduction of a number of new programmes, and this, along with a continual review of the viability of existing programmes, will ensure that the University is able to achieve the objectives set out in its strategic plan. This will, in turn, allow the University to continue to generate an adequate level of cash in the short to medium term and to maintain an adequate level of reserves. The Court carries out regular monitoring of the University's financial sustainability, as described above.

The impact of the UK's exit from the European Union on the University's operations and financial plans remains uncertain. The University has identified a number of elements which may have a significant impact on its operations. These include:-

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

The funding environment for Scottish higher education institutions was challenging prior to the COVID-19 pandemic, and those challenges have inevitably increased as a result of the pandemic, as the level of funds available to the Scottish Government and the Scottish Funding Council (and therefore the amount available for distribution to universities) continues to decline in real terms. The financial challenges facing the University are highlighted in the financial sustainability indicators set out above, and in particular the EBITDA indicator, for which the five-year average remains below the target level.

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

The long term financial health of the University will continue to depend upon its ability to grow and diversify its income base, and to control costs. The recent review and refresh of the University's strategic plan has provided additional focus for the University's activities whilst at the same time creating an environment which will allow the development of further new and increased sources of income to take place.

On behalf of the University Court

Linda McPherson
Acting Chair
26 February 2021

DIRECTORS' REPORT

Section 172(1) Statement - Companies Act 2006
This statement sets out how the Directors of Queen Margaret University, Edinburgh, have applied and complied with Section 172(1) of the Companies Act 2006 in accordance with the Companies (Miscellaneous Reporting) Regulations 2018. The University Court, as Directors of the company limited by guarantee, must, as those of all UK companies, act in accordance with a set of general duties set out in section 172 of the Companies Act 2006 (the Act). The Board of Directors consider, both individually and together, that they have acted in the way, in good faith, that would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 31 July 2020.

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

Employee involvement
The University recognises the benefits of keeping employees informed of its financial and academic performance. Information on matters of interest to employees is given through staff briefing sessions and through regular communication from the Principal. During the COVID-19 pandemic, regular (at least weekly) updates have been provided to all staff to ensure that they are well informed about the University's response to the pandemic. The University operates a performance enhancement review scheme, which is open to all staff.

Student involvement
The University seeks to take account of the views of the student body. The Student President and Vice-President are full members of the University Court and the Senate, and there are two additional student members of Senate, making four in total, or 10% of the total membership. There is student representation on all other major committees of the University. Senior members of staff, including the Principal, engage with the Students' Union from time to time to explain aspects of the University's operations and plans and to answer questions from student representatives. The Deputy Principal, University Secretary and the SU Sabbatical Officers meet regularly as the Student Union Partnership Board to discuss issues of common concern and interest, and a Student Partnership Agreement has been put in place between the University and the Students' Union. The University also provides an annual grant to the Students' Union.

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

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

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

Creditors' payment policy
Unless special terms are agreed, it is the University's policy to pay invoices 30 days from the date of the invoice (in accordance with the CBI prompt payment code). In agreements negotiated with suppliers, the University endeavours to include and abide by specific payment terms. At 31 July 2020, trade creditors represented 38 days of relevant expenditure (2019: 31 days). Interest paid under the Late Payment of Commercial Debts (Interest) Act 1998 was £nil (2018/19: £nil).

Going Concern
The University's activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report, which also includes information on cash flows and borrowing facilities, and the University Court's assessment of going concern. Demand from students for the University's courses remains strong. Consequently, the University Court believes that the University is well placed to manage its business risks successfully despite the ongoing, uncertain economic outlook.

DIRECTORS' REPORT (continued)

MEMBERSHIP OF THE UNIVERSITY COURT

Name		Attendance record	
Dr Frances Dow CBE (Chair)	Appointed 17 March 2016 Retired 16 March 2020	2/3	Former Vice Principal, University of Edinburgh
Linda McPherson (Acting Chair)	Appointed 1 October 2014, Vice-Chair to 16 March 2020, Acting Chair from 17 March 2020	5/5	Former Senior Director - Food and Drink, Tourism & Textile, Scottish Enterprise
Elaine Acaster, OBE	Appointed 28 June 2017	5/5	Former Vice Principal, Royal Veterinary College, University of London
Carolyn Bell	Appointed 1 October 2016	5/5	Solicitor
Professor Richard Butt	Appointed 1 September 2016	5/5	Deputy Principal *Ex Officio*
Professor Graham Caie, CBE	Appointed 1 December 2014 Retired 30 November 2020	5/5	Former Chair, National Library of Scotland Governance Committee, Vice President of the Royal Society of Edinburgh
Colin Cox	Appointed 1 October 2019	4/5	Nominated Trade Union Member – Support Staff
Karen Cullen	Appointed 1 June 2019	5/5	Elected Support Staff Member
Dr Anthony Falconer, OBE	Appointed 1 October 2013 Retired 30 September 2019	0/0	Retired Consultant Obstetrician and Gynaecologist. Former President Royal College of Obstetricians and Gynaecologists.
Dr Maria Giatsi-Clausen	Appointed 1 October 2019	4/5	Nominated Trade Union Member – Academic Staff
Sir Paul Grice	Appointed 1 October 2019	4/5	Principal & Vice-Chancellor *Ex Officio*
Cynthia Guthrie	Appointed 1 December 2015	5/5	Joint Managing Director, Guthrie Group Limited
Professor John Harper	Appointed 1 December 2020	0/0	Retired Principal and Vice Chancellor, Robert Gordon University
Dr Arturo Langa	Appointed 1 October 2019	5/5	Consultant Psychiatrist, NHS Lanarkshire
Francis Lennon, OBE	Appointed 1 October 2016	2/5	Former Head Teacher
Jacqueline Macdonald	Appointed 1 October 2013 Retired 30 September 2019	0/0	Partner, Small Green Spaces
Ruth Magowan	Appointed 11 December 2017 Retired 31 October 2020	5/5	Staff member, Appointed by Senate
Ken McGarrity	Appointed 1 October 2016	5/5	Former Finance Director, Nairn's Oatcakes
Chiara Menozzi	Appointed 10 June 2019	4/5	Student President
Melanie Moreland	Appointed 1 January 2018	4/5	Senior Manager/Delivery Manager, Royal Bank of Scotland
Robert Pattullo	Appointed 23 May 2018	5/5	Start-up Company Mentor. Former Vice-Chair Citizens' Advice Edinburgh.
Sarah Phillips	Appointed 28 June 2017	5/5	Solicitor
Elizabeth Porter	Appointed 1 October 2019	5/5	Chartered Management Accountant
Dr Eurig Scandrett	Appointed 1 December 2016	4/5	Elected Academic Staff Member
Dr Andrew Scott	Appointed 28 June 2017	4/5	Director of Population Health, Scottish Government
Dr Laura Young, MBE	Appointed 1 October 2016 Retired 30 September 2019	0/0	Founder of the Teapot Trust
Andrew White	Appointed 10 June 2019	5/5	Student Vice-President

Dr Frances Dow retired as Chair of Court on 16 March 2020. The Vice-Chair of Court, Linda McPherson, took on the role of Acting Chair of Court until the process to elect a new Chair could be completed. The election of the new Chair was completed in January 2021, and the new Chair will take up their post on 1 April 2021.

DIRECTORS' REPORT (continued)

Membership of University Court Committees during the year to 31 July 2020

Audit and Risk Committee

Name		Attendance record
Professor Graham Caie	Convener, retired 30 November 2020	4/4
Elaine Acaster		3/4
Carolyn Bell		4/4
Dr Anthony Falconer	Retired 30 September 2019	0/1
Elizabeth Porter	Appointed 1 June 2020	1/1

Finance & Estates Committee

Name		Attendance record
Ken McGarrity	Convener	4/4
Professor Richard Butt		4/4
Sir Paul Grice	Appointed 1 October 2019	3/3
Cynthia Guthrie		4/4
Linda McPherson		4/4
Robert Pattullo		3/4
Andrew Scott		3/4

Nominations Committee

Name		Attendance record
Dr Frances Dow	Convener, retired 16 March 2020	1/1
*Linda McPherson	Convener from 17 March 2020	4/4
Elaine Acaster		3/4
Karen Cullen		4/4
Dr Anthony Falconer	Retired 30 September 2019	0/0
Sir Paul Grice	Appointed 2 October 2019	4/4
Robert Pattullo		3/4
Chiara Menozzi		4/4

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

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

Senior Management Remuneration Committee

Name		Attendance record
Linda McPherson	Convener	1/1
Dr Frances Dow	Retired 16 March 2020	1/1
Frances Lennon		1/1
Jacqueline Macdonald	Retired 30 September 2019	1/1

Disclosure of information to auditors

The members of the University Court who held office at the date of approval of these financial statements confirm that, so far as they are each aware, there is no relevant audit information of which the University's auditors are unaware. 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

Linda McPherson
Acting Chair
26 February 2021

CORPORATE GOVERNANCE STATEMENT

Summary of the University's Structure of Corporate Governance
The University is committed to best practice in all aspects of corporate governance. This summary describes the manner in which the University has applied the principles set out in the UK Corporate Governance Code, in so far as they apply to the higher education sector. The University has followed the internal control guidance for directors on the Code as amended by the British Universities Finance Directors Group, and has also aligned its practice fully against the principles set out in the Scottish Code of Good Higher Education Governance (Revised 2017). The purpose of this summary is to assist the reader of the financial statements to understand how the principles of good governance set out in both codes have been applied.

The University is not required to comply with the UK Corporate Governance Code. However, it has reported on its Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code that it considers to be relevant to the company and best practice, and it has done so throughout the year ended 31 July 2020. The University Court also considers that the University is compliant with the principles of the Scottish Code of Good Higher Education Governance 2017.

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

- determining the University's mission and strategic vision, its strategic plan, key performance indicators (KPIs) and annual budgets, fostering an environment in which the objects of the University are achieved with due regard to the interests of students, staff, and other stakeholders;
- appointing a Chancellor;
- appointing a Principal and Vice-Chancellor of the University, including the terms and conditions attaching to such appointment, and putting in place suitable arrangements for reviewing their performance;
- protecting the reputation and values of the University, and overseeing its activities;
- ensuring, in conjunction with Senate, the quality of institutional educational provision and adequate provision for the general welfare of students;
- ensuring that non-discriminatory systems are in place to provide equality and diversity of opportunity for staff and students;
- ensuring adherence to the funding requirements specified by the Scottish Funding Council in its Financial Memorandum and other funding documents;
- ensuring the establishment and monitoring of systems of control and accountability, including financial and operational controls and risk assessment, clear procedures for handling internal grievances and "whistleblowing" complaints, and for managing conflicts of interest; and
- monitoring institutional performance against plans and approved KPIs which, where possible and appropriate, should be benchmarked against other comparable institutions.

The full Statement of Primary Responsibilities can be found as part of the Court Members' Handbook on the University website: https://www.qmu.ac.uk/about-the-university/university-court/

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

The University Court is satisfied that there is an ongoing process for identifying, evaluating and managing the University's significant risks, which has been in place throughout the year ended 31 July 2020 and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the University Court, and accords with the Turnbull guidance, as applicable to the higher education sector. The University has in place a business continuity and risk management and policy framework for the whole organisation. In addition, each of the key areas within the institution, including the Senior Leadership Team (SLT), has in place local procedures detailing action to be taken in response to a potential or actual disaster. Risk management is a standing item on the agenda of the Senior Leadership Team and the Audit & Risk Committee, and regular reports are made to the University Court.

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

CORPORATE GOVERNANCE STATEMENT (continued)

To assist members in the performance of their duties, members of the University Court were offered, and attended, several training and development opportunities during 2019-20. 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 2019/20 included:

- Advance HE Governor Development Programme for New and Student Governors, 15 October 2019, Glasgow.
- Scott Moncrieff Non-Executive Directors Forum: 'Making Better Decisions' – October 2019.
- Advance HE Scottish Governance Symposium: On-line event 22 May 2020.

New members also received a formal induction session supported by the Court Members' Handbook, published originally in October 2016 and updated annually. The current version may be found at:
https://www.qmu.ac.uk/media/5415/court-members-handbook-october-2018.pdf

In accordance with the Financial Memorandum with the Scottish Funding Council (SFC), the University Court is responsible for setting the strategic direction of the University, the approval of overall institutional budgets and major developments and the receipt of regular reports from executive officers on the day to day operation of its business and its subsidiary companies. The University Court has five Ordinary meetings per annum, and has provided delegated authority to a number of Committees, as set out below.

In response to the Coronavirus Emergency, meetings of the University Court held in April and June 2020 were held virtually. The Office of the Scottish Charity Regulator has recognised that holding meetings virtually is a good option, and states that charities may hold their meetings in this way, even where the governing document is silent on the matter. The University Court Standing Orders are silent on the matter. In line with good governance, the discussion and decisions of the University Court have been recorded in the form of confirmed minutes approved by members. Meetings have considered key matters relating to the University's response to the Coronavirus Emergency, including matters concerned with the maintenance of academic delivery, protection of academic standards, and wellbeing and other support for students and staff.

Each of the standing Committees of the University Court is formally constituted with published terms of reference, and with membership comprised mainly of lay members of the University Court, one of whom is the Convener. Lay members are represented on the Equality and Diversity Committee and the Health and Safety Committee, both of which report to the University Court. . All meetings held in the period March to July 2020 were held virtually due to restrictions arising from the Coronavirus Emergency.

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

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

The Nominations Committee makes recommendations to the University Court on appointment to vacancies in the University Court lay membership, and on appointment to vacancies in the standing committees of the Court in line with each respective committee's skills matrix. During session 2019-20, the Committee formed the Appointing Committee for the appointment of the Chair of the University Court, as provided for in the Queen Margaret University, Edinburgh (Scotland) Amendment Order of Council 2019. In assuming this role, the Committee acted in accordance with sections 3 to 8 of the Higher Education Governance (Scotland) Act 2016, and in line with the appointment process set out in Section 11 of the Standing Orders of the University Court approved by the University Court on 26 June 2019.

CORPORATE GOVERNANCE STATEMENT (continued)

The Senior Management Remuneration Committee develops, on behalf of the University Court, senior management remuneration policies and processes for final determination by the University Court. The Committee determines and reviews the salaries and terms and conditions of the Principal and members of the Senior Leadership Team in line with agreed policies, and in accordance with good corporate and higher education governance. The Principal attends meetings of the Committee, but is not a member, and does not participate in any review by the Committee of his or her own remuneration or reward package. The Committee also reviews arrangements in place for determining the salaries of those senior staff with Professorial title.

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

Higher Education Governance (Scotland) Act 2016
The Higher Education Governance (Scotland) Act 2016 (Commencement, Transitory, Transitional and Savings Provisions) Regulations 2016 were laid in Parliament on 24 November 2016, and came into force on 30 December 2016. The University Court has assessed in full the impact of the key provisions of the Act on the University's governance arrangements, including those concerning the election of the senior lay member of the governing body, and the composition and size of the Court and the Senate. The Queen Margaret University, Edinburgh (Scotland) Amendment Order of Council 2019 was laid before the Scottish Parliament on 18 June 2019, and came into force on 1 October 2019.

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

The University Court completed a full mapping of its alignment with the requirements of the revised Scottish Code of Good Higher Education Governance on its publication in 2017. The one outstanding matter arising from that mapping was concluded on 1 October 2019, with the publication of the amended Queen Margaret University Order of Council. In particular, the amended Order established rules that formed the basis of Chair of Court recruitment arrangements during 2019-20. Subject to this point, in the opinion of the University Court, the University complied with the principles and provisions of the 2017 Scottish Code of Good Higher Education Governance throughout the period 2019-20.

Review of Effectiveness
The University Court has established as a Key Performance Indicator of the effectiveness of its performance, and of its Committees, 'Full alignment with the Scottish Code of Good Higher Education Governance'. The publication of the updated Queen Margaret University Order of Council, and in particular the establishment of rules for the appointment of the Chair, has provided the Court with the necessary assurance that the University is fully aligned with the Code, on the basis that the incorporation of such rules within a revised Order of Council was the one action outstanding.

Throughout 2019-20, the University Court reviewed a full suite of Key Performance Indicators (KPIs) that it has established as part of its wider assessment of its effectiveness.

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

Embedding equality and diversity in our governance structures and in our strategic planning process is critical to mainstreaming equality and diversity, as is defining responsibilities, setting performance measures and monitoring progress against those measures. The University's Mainstreaming Report and Equality Outcomes, which sets out progress on mainstreaming equality and establishes a number of outcomes for the period 2017-2021, was approved by the Court in April 2017. The report can be found at:
https://www.qmu.ac.uk/about-the-university/equality-and-diversity/

CORPORATE GOVERNANCE STATEMENT (continued)

The University's Gender Action Plan 2017-20 restates the University's commitment to ensuring that the University Court (Court), Senate and all committees and decision making bodies of the University are representative of its community. In particular, the University is committed to achieving the following goals and targets:

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

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

At the time of writing, the gender balance of membership of Court sits at 50% female and 50% male. Equality Monitoring was extended to all Court members during 2017/18.

System of Internal Financial Control

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

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

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

On behalf of the University Court

________________________	___________________________
Linda McPherson Acting Chair	Sir Paul Grice Principal & Vice-Chancellor

26 February 2021

RESPONSIBILITIES OF THE UNIVERSITY COURT

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

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

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

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

The University Court has taken reasonable steps to:

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

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

Opinion
We have audited the financial statements of Queen Margaret University, Edinburgh ('the parent institution') and its subsidiary (the 'group') for the year ended 31 July 2020 which comprise the Statements of Comprehensive Income and Expenditure, Statements of Changes in Reserves, Balance Sheets, Consolidated Statement of Cashflows and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the group's and of the parent institution's state of affairs as at 31 July 2020 and of the group and parent institution's income and expenditure, recognised gains and losses and changes in reserves and of the group's statement of cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, and relevant legislation; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of the Charities Accounts (Scotland) Regulations 2006.

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

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

Emphasis of matter – Disclosure in relation to the effects of Covid-19 and Property, Plant and Equipment
We draw attention to the Statement of Principal Accounting Policies (Note A) on pages 22-23 of the financial statements, which describes the financial and operational consequences the University is facing as a result of Covid-19 which is impacting the financial and operational position and performance during 2020/21 and beyond.

We also draw attention to the Statement of Principal Accounting Policies (Note N) on pages 26 and 27 of the financial statements, which describe the valuation uncertainty the University is facing as a result of Covid-19 in relation to property valuations.

Our opinion is not modified in respect of these matters.

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

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

Other information
The other information comprises the information included in the Strategic Report and Financial Statements, other than the financial statements and our auditor's report thereon. The University Court is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes:

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

STATEMENTS OF COMPREHENSIVE INCOME AND EXPENDITURE
For the Year Ended 31 July 2020

		2019/20		2018/19	
		£000 Consolidated	£000 University	£000 Consolidated	£000 University
INCOME					
Tuition fees and education contracts	1	13,918	13,918	13,923	13,923
Scottish Funding Council grants	2	17,171	17,171	16,171	16,171
Research grants and contracts	3	2,421	2,404	2,192	2,167
Other income	4	6,532	6,308	6,842	6,463
Investment income	5	56	55	85	84
Donations and endowments	6	339	339	305	305
Total income		40,437	40,195	39,518	39,113
EXPENDITURE					
Staff costs	7	23,153	23,089	26,712	26,567
Other operating expenses	11	10,901	10,723	11,683	11,423
Depreciation	12	5,314	5,314	5,735	5,735
Interest and other finance costs	8	1,548	1,548	1,432	1,432
Total expenditure		40,916	40,674	45,562	45,157
(Deficit)/surplus before other gains/(losses)		(479)	(479)	(6,044)	(6,044)
Gain/(loss) on disposal of tangible asset		4	4	-	-
(Deficit) / surplus before tax		(475)	(475)	(6,044)	(6,044)
Taxation	10	-	-	-	-
(Deficit) / surplus for the year		**(475)**	**(475)**	**(6,044)**	**(6,044)**
Unrealised surplus on revaluation of land and buildings		5,168	5,168	30,614	30,614
Actuarial (loss) /gain in respect of pension schemes		(14,439)	(14,439)	(7,359)	(7,359)
Total comprehensive (expenditure)/ income for the year		**(9,746)**	**(9,746)**	**17,211**	**17,211**

Represented by:-

Endowment comprehensive income for the year	179	179	77	77
Unrestricted comprehensive income for the year	(15,093)	(15,093)	(13,480)	(13,480)
Revaluation reserve comprehensive income for the year	5,168	5,168	30,614	30,614
	(9,746)	**(9,746)**	**17,211**	**17,211**

All items of income and expenditure relate to continuing activities.

STATEMENTS OF CHANGES IN RESERVES
For the Year Ended 31 July 2020

Consolidated and University

£000s	Income & Expenditure Account			
	Endowments	**Unrestricted**	**Revaluation reserve**	**Total**
Balance at 1 August 2018	**565**	**23,791**	**31,132**	**55,488**
Surplus/ (deficit) from the income & expenditure statement	77	(13,480)	-	(13,403)
Revaluation gain	-	-	30,614	30,614
Transfer between revaluation and income & expenditure reserves	-	334	(334)	-
Balance at 1 August 2019	**642**	**10,645**	**61,412**	**72,699**
Surplus/ (deficit) from the income and expenditure statement	179	(15,093)	-	(14,914)
Revaluation gain	-	-	5,168	5,168
Transfer between revaluation and income & expenditure reserves	-	-	-	-
Balance at 31 July 2020	**821**	**(4,448)**	**66,580**	**62,953**

BALANCE SHEETS AS AT 31 JULY 2020

	Note	Consolidated 2020 £000	Consolidated 2019 £000	University 2020 £000	University 2019 £000
FIXED ASSETS					
Tangible assets	12	128,755	127,961	128,755	127,961
Investments	13	-	-	-	-
		128,755	127,961	128,755	127,961
CURRENT ASSETS					
Trade and other receivables	14	2,522	1,709	2,982	1,825
Cash at bank and in hand		8,772	8,082	8,252	7,754
		11,294	9,791	11,234	9,579
CREDITORS: amounts falling due within one year	15	(7,272)	(8,219)	(7,212)	(8,007)
NET CURRENT ASSETS / (LIABILITIES)		4,022	1,572	4,022	1,572
TOTAL ASSETS LESS CURRENT LIABILITIES		132,777	129,533	132,777	129,533
CREDITORS : amounts falling due after more than one year	16	(35,251)	(37,418)	(35,251)	(37,418)
PROVISIONS FOR LIABILITIES AND CHARGES	17	(34,573)	(19,416)	(34,573)	(19,416)
NET ASSETS		**62,953**	**72,699**	**62,953**	**72,699**
RESTRICTED RESERVES					
Income & expenditure reserve – endowment reserve	18	821	642	821	642
UNRESTRICTED RESERVES					
Income & expenditure reserve – unrestricted		(4,448)	10,645	(4,448)	10,645
Revaluation reserve	19	66,580	61,412	66,580	61,412
TOTAL RESERVES		**62,953**	**72,699**	**62,953**	**72,699**

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

The financial statements on pages 18 to 42 were approved by the University Court on 26 February 2021 and signed on its behalf by:

Linda McPherson
Acting Chair

Sir Paul Grice
Principal and Vice-Chancellor

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 July 2020

	Note	2019/20 £000	2018/19 £000
Cash inflow from operating activities			
(Deficit) / surplus for the year		(475)	(6,044)
Adjustments for non-cash items			
Depreciation	12	5,314	5,735
Deferred capital grants released		(649)	(528)
Pension costs less contributions payable		1,220	2,143
(Increase) /decrease in operating debtors		(812)	2
Increase / (decrease) in operating creditors		(940)	524
Increase / (decrease) in pension provision		(502)	698
Adjustments for investing or financing activities			
Investment income and interest receivable		(56)	(85)
Interest payable		1,187	1,246
(Gain)/loss on the sale of tangible assets		(4)	-
Net cash inflow / (outflow) from operating activities		4,283	3,691
Cash flows from investing activities			
Investment income		56	85
Payments made to acquire fixed assets		(940)	(1,011)
		(884)	(926)
Cash flows from financing activities			
Interest paid		(1,187)	(1,246)
Repayments of amounts borrowed		(1,522)	(1,521)
		(2,709)	(2,767)
Increase / (decrease) in cash and cash equivalents in the year		**690**	**(2)**
Cash and cash equivalents at beginning of the year		8,082	8,084
Cash and cash equivalents at end of the year		8,772	8,082
		690	(2)

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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

(A) **Basis of preparation (including going concern assessment)**

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

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

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

The financial statements have been prepared on a going concern basis. The University and Group's activities, financial performance and financial position, together with factors likely to affect its future development and performance, are described in the Strategic Report. Emerging and principal risks and uncertainties facing the University are described on page 5. At 31 July 2020, the University held gross cash of £8.8 million (2019 gross cash of £8.1 million), while net current assets were £4.0 million. At 31 January 2021 the University held £13.5 million of gross cash.

The only external borrowings of the University at 31 July 2020 were debt with a balance of £29.1 million, comprising covenanted debt with Barclays Bank plc. Between 1 August and 31 January 2021, £0.7 million had been repaid in accordance with loan agreements. A further £1.5 million of borrowings will be repayable during the going concern period, which runs for a 12-month period from the date of approval of these financial statements to February 2022.

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

- the current and developing environment in which the University and Group operates;
- the University's liquidity through the assessment period – demonstrated through a detailed monthly cash flow forecast throughout the assessment period;
- key assumptions made by management around the future financial performance of the University, in particular:
  - assumptions around future student intake, in particular EU students, for both 2021/22 and the following academic year;
  - assumptions around other income streams for both 2020/21 and the following academic year, concerning English Language Teaching income and reduced income from accommodation; and
  - assumptions around other key cashflows over the review period.
- evidence of compliance with loan covenants at 31 July 2020 and forecast compliance with loan covenants through the going concern period, specifically at 31 July 2021, and subsequent mitigations should there be a breach.

Management has modelled a severe but plausible downside scenario based on extended periods of disruption resulting from COVID-19 and the related impacts on tuition fees, other income, increases in COVID-19 related expenditure and bad debt, and before any mitigating actions are taken by management. In this scenario, the University and Group is still forecasting material liquidity throughout the going concern assessment period to February 2022, with minimum liquidity headroom throughout the period of £5.1 million at February 2022.

The scenario outlined above would result in the University and group running down its liquidity to a level below £5 million, the minimum level of cash required to ensure compliance with bank covenants, in March 2022, one month after the going concern period. Should the University's financial position through the going concern period deteriorate in line with the downside scenario outlined or worse, management will make use of the following mitigations to address this in advance of it running out of cash –

1. Further reducing maintenance costs to the value of £0.5 million.
2. A reduction in staff costs through a recruitment freeze to the value of £0.1 million.
3. A reduction in cleaning, maintenance and utilities costs for the accommodation block to the value of £0.2 million (to reflect reduced occupancy of the student accommodation during semester and during the summer period).
4. Removing temporary accommodation staff costs to the value of £0.1 million (to reflect the loss of income from summer accommodation letting business).

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

(A) Basis of preparation (including going concern assessment) (continued)

The University borrowings listed above are subject to covenant terms. The University was fully compliant with those covenant terms during the year to 31 July 2020. In response to the significant uncertainties arising as a result of the COVID-19 pandemic, the University entered discussions with its lender regarding amendment of covenant terms, and reached agreement on revised covenants on 27 January 2021 for the covenants being measured at 31 July 2021, the only measurement point in the going concern assessment period. The Operational Leverage Covenant has been revised, which is the ratio of borrowing at the end of each relevant period to adjusted operating surplus or deficit. Based on the plausible worst case scenario outlined above, the University forecasts headroom against the most stringent covenant of £0.5 million at 31 July 2021. It also forecasts compliance with the remaining covenants at 31 July 2021.

Future viability
The University is continuing to monitor its forecast compliance with covenants including at the next key measurement date after the going concern period at 31 July 2022, including under the plausible worst case scenario. Should this scenario be realised, in particular in respect of significantly reduced student recruitment and residences occupancy in the 2021/22 academic year, management is confident that there are sufficient mitigating actions within the University's control that would offset this reduced income to ensure compliance with future loan covenants, before the requirement for further renegotiation of covenants with its lender.

Based on the assessment outlined above, the University has concluded that it has adequate resources to continue in operation for at least 12 months from the approval of these financial statements and for this reason the going concern basis continues to be adopted when preparing the financial statements.

(B) Basis of consolidation

The consolidated financial statements include the University and its subsidiary undertaking for the financial year ended 31 July 2020. Details of QMU Enterprises are given in note 13. Intra-group transactions are eliminated on consolidation. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated.

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

(C) Recognition of income

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

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

Investment income is credited to income on a receivable basis.

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

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

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

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

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

(D) **Accounting for retirement benefits**

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

Local Government Pension Fund

The Lothian Pension Fund is a funded multi-employer defined benefit scheme, with the assets held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The University recognises a liability for its share of obligations under the scheme net of its share of plan assets. This net defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in current and prior periods, discounted to determine its present value, less the fair value (at bid price) of plan assets. The fund is valued every three years by professionally qualified independent actuaries using the projected unit credit method. Where the calculation results in a net asset, recognition of the asset is limited to the extent to which the University is able to recover its share of the surplus, either through reduced contributions in the future or through refunds from the plan. In calculating the amount of the provision at 31 July 2020, the assumptions used in calculating the McCloud element of the liability have been refined based on the most recent data available. This has led to an increase in the liability and the expense of £275,000.

Scottish Teachers' Pension Scheme

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

Universities Superannuation Scheme

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

Enhanced pension benefits

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

(E) **Employment benefits**

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

(F) **Leases and hire purchase contracts**

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

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

(G) **Foreign currency translations**

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

(H) **Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Certain items of fixed assets which had been revalued to fair value on or prior to the date of transition to SORP 2015 are held on a basis of fair value cost, being the revalued amount at the date of that valuation. Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

Land and Buildings are stated at cost or valuation. Land and Buildings are externally valued 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 part of the University campus comprising the academic buildings was revalued at 31 July 2020 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 heritable properties comprising the Queen Margaret University Student Village were valued as at 31 July 2020 by, Gerald Eve LLP, a regulated firm of Chartered Surveyors. The valuation was prepared in accordance with the requirements of the RICS Valuation - Global Standards (July 2017 edition) and Financial Reporting Standard 102 and the 2019 Statement of Recommended Practice 'Accounting for Further and Higher Education'. The valuation was undertaken on a Fair Value basis, equated to Market Value on the assumption of a continuation of the existing use.

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

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

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

(I) **Investments**

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

(J) **Cash and cash equivalents**

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

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

Provisions are recognised when the University has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is discounted to present value where the time value of money is material. The discount rate used reflects current market assessments of the time value of money and reflects any risks specific to the liability.

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

A contingent asset arises where an event has taken place which entitles the University to a possible asset, the existence of which will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University. Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed by way of a note.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

(L) **Taxation**

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

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

(M) **Reserves**

Reserves are classified as either restricted or unrestricted. Restricted endowment reserves include balances which, through endowment to the University, are held as a permanently restricted fund which the University must hold in perpetuity. Other restricted reserves include balances where the donor has designated a specific purpose and therefore the University is restricted in the purposes for which it may use these funds. The policy is to revalue the estate every 5 years, and any surplus arising is added to the revaluation reserve.

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

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

Pension and other post-employment benefits

The cost of defined benefit pension plans and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Further details are given in note 21 to the financial statements.

Valuation of land and buildings

The part of the University campus comprising the student accommodation was revalued at 31 July 2020 by Gerald Eve, Chartered Surveyors. The valuation was prepared in accordance with the requirements of the RICS Valuation - Global Standards (July 2017 edition) and Financial Reporting Standard 102 and the 2019 Statement of Recommended Practice 'Accounting for Further and Higher Education'. The valuation was undertaken on a Fair Value basis, equated to Market Value on the assumption of a continuation of the existing use. This exercise resulted in a revaluation loss of £4.314 million, which has been reflected in the financial statements. The valuation took into account the impact of the COVID-19 pandemic on the short-term reduction in the ability to generate income from summer letting activities.

The part of the University campus comprising the academic buildings was revalued at 31 July 2020 by Gerald Eve, Chartered Surveyors. The basis of the valuation, which was carried out in accordance with guidelines issued by the Royal Institution of Chartered Surveyors, is depreciated replacement cost. This exercise resulted in a revaluation gain of £9.486 million, which has been reflected in the financial statements.

Management has considered the basis used to undertake both valuations and has satisfied itself that the basis, and the resulting valuations, are reasonable.

The net revaluation gain arising out of the two valuations was £5.172 million.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

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

Valuation of land and buildings (continued)

Consideration has been given to the effects of the COVID-19 pandemic on the University's property assets and their associated values. The COVID-19 outbreak is a global pandemic that has affected all parts of the global community. It is a fast-changing, fluid situation, with government recommendations and requirements being reviewed and updated on an ongoing basis. Many business sectors have been forced to close as part of government restrictions to reduce the spread of the virus, and the full effects of the virus on property markets and the wider economy are yet to be fully understood, assessed or quantified. Currently, there is insufficient empirical data available to make an informed and evidence-based decision on whether or not there has been a significant impact on asset valuations. Occupancy levels, rental figures, land values and BCIS costs and indices will all require to be monitored and reviewed going forward to assess the full impact of the COVID-19 outbreak on asset valuations. In light of the foregoing, it is considered appropriate to include the following RCIS-approved "Material Valuation Uncertainty" statement.

Material Valuation Uncertainty Statement
The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, in terms of the non-residential accommodation, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Gerald Eve have therefore indicated that their valuations, upon which management has relied, are reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution – should be attached to the valuations than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, the valuation of these properties will be kept under frequent review.

For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the declaration has been included to ensure transparency of the fact that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is to serve as a precaution and does not invalidate the valuation.

Effect if actual results differ from assumptions
The value of all of the University's land and buildings subject to revaluation was £126.4 million prior to the 2020 revaluation. The impact of a 5% change in valuation would be £6.3 million, either resulting in an increase or a decrease in the University's revaluation reserve or an additional impairment charge.

NOTES TO THE FINANCIAL STATEMENTS

	2019/20	2018/19
	£000	£000
1. **TUITION FEES AND EDUCATION CONTRACTS** (consolidated and university)		
Scottish higher education students	5,708	5,858
Rest of UK students	1,016	1,040
European Union (excluding UK) students	2,881	2,585
Non-European Union students	2,326	2,582
Other fees and discounts	(363)	(337)
Education contracts	2,350	2,195
	13,918	**13,923**

	2019/20	2018/19
2. **SCOTTISH FUNDING COUNCIL GRANTS** (consolidated and university)		
Recurrent grant		
Teaching	13,517	12,558
Research	1,108	1,174
Specific grants		
Wider access retention funding	597	597
Other Specific Grants	64	219
Disabled students premium	57	54
Knowledge exchange / University Innovation Fund	385	534
Scottish Drama Training Network	293	148
Capital maintenance grant released	344	359
Other miscellaneous grants	157	-
Deferred capital grants released (note16)		
Land & buildings	649	528
Equipment	-	-
	17,171	**16,171**

3. **RESEARCH GRANTS & CONTRACTS**

	Consolidated		University	
	2019/20	2018/19	2019/20	2018/19
	£000	£000	£000	£000
Research councils	303	239	303	239
UK based charities	148	132	138	124
UK government and health authorities	1,729	1,497	1,729	1,484
UK private sector	5	7	-	-
European funding	110	81	108	81
Other grants & contracts	126	236	126	239
	2,421	**2,192**	**2,404**	**2,167**

4. **OTHER OPERATING INCOME**

	Consolidated		University	
	2019/20	2018/19	2019/20	2018/19
	£000	£000	£000	£000
Residences, catering and conferences	3,872	5,250	3,602	4,884
Other services rendered	505	829	331	469
Sports centre income	148	223	148	223
Released from deferred capital grants (note 16)	-	-	-	-
Other income	2,007	540	2,227	887
	6,532	**6,842**	**6,308**	**6,463**

NOTES TO THE FINANCIAL STATEMENTS

5. **INVESTMENT INCOME**

	Consolidated		University	
	2019/20	2018/19	2019/20	2018/19
	£000	£000	£000	£000
Investment income on endowments	-	-	-	-
Other investment income	56	85	55	84
Net return on pension scheme	-	-	-	-
	56	**85**	**55**	**84**

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

	2019/20	2018/19
	£000	£000
New endowments	-	-
Unrestricted donations	339	305
	339	**305**

7. **STAFF COSTS**

	Consolidated		University	
	2019/20	2018/19	2019/20	2018/19
	£000	£000	£000	£000
Staff costs				
Wages and salaries	17,300	17,855	17,236	17,710
Restructuring	-	1,101	-	1,101
Social security costs	1,795	1,923	1,795	1,923
Movement on USS provision	(359)	698	(359)	698
Other pension costs	4,417	5,135	4,417	5,135
	23,153	**26,712**	**23,089**	**26,567**

Emoluments of the Principal and Vice-Chancellor

	2019/20	2018/19
	£000	£000
Professor Petra Wend		
Salary	-	215
Employers' pension contributions	-	-
In lieu of employers' pension contribution	-	32
Benefits in kind	-	2
Total	-	249
Dr Richard Butt (Acting Principal from 1 August 2019 to 30 September 2019)		
Salary	23	-
Employers' pension contributions	5	-
Benefits in kind	-	-
Total	28	-
Sir Paul Grice (from 1 October 2019)		
Salary	166	-
Employers' pension contributions	23	-
In lieu of employers' pension contribution	9	-
Benefits in kind	-	-
Total	198	-

Sir Paul Grice was the highest paid member of the University Court.

NOTES TO THE FINANCIAL STATEMENTS

7. **STAFF COSTS (continued)**

Professor Wend retired on 31 July 2019, and had opted out of the pension scheme. Sir Paul Grice participated in the Lothian Pension Fund scheme from 1 October 2019 until 30 April 2020. With effect from 1 May 2020, in accordance with the policy approved by the University Court, an adjustment was made to Sir Paul's salary equivalent to employers' pension contributions foregone. The head of the University's basic salary is 4.95 times the median pay of staff (2018/19 : 5.27 times), where the median pay is calculated on a full-time equivalent basis for the salaries paid by the University to its staff.

Key management personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the University: this comprises the Senior Leadership Team. The total compensation for the year ended 31 July 2020 (including any employers' pension contributions) was £916,919 (year ended 31 July 2019, £937,778).

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

	2019/20 £000	2018/19 restated £000
Directors' emoluments (including pension contributions)		
Fees for services as members of University Court	-	-
Emoluments (i.e. salaries as members of staff)	416	467
Contributions paid to pension schemes	75	38
Benefits in kind	-	2
Total	491	507

These figures relate to 7 members of staff, including the Principal (2018/19 : 6)

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

	2019/20 Number	2018/19 Number
Senior post holders		
£100,001 to £110,000	2	2
£110,001 to £120,000	-	1
£120,001 to £130,000	1	-
£170,001 to £180,000	1	-
£240,001 to £250,000	-	1

No compensation payments were made to senior post holders in respect loss of office (2018/19: Nil).

Average full time equivalent (FTE) staff numbers by major category: *(Consolidated and university)*	2019/20 FTE number	2018/19 FTE number
Academic schools	182	194
Academic services	44	43
Research grants & contracts	37	33
Residences, catering & conferences	16	26
Premises	23	21
Administration & central services	108	108
	410	425

NOTES TO THE FINANCIAL STATEMENTS

8. INTEREST PAYABLE AND OTHER FINANCE COSTS

	Consolidated		University	
	2019/20	2018/19	2019/20	2018/19
	£000	£000	£000	£000
Loan interest	1,187	1,246	1,187	1,246
Finance lease interest	-	-	-	-
Net charge on pension scheme	361	186	361	186
	1,548	**1,432**	**1,548**	**1,432**

9. ANALYSIS OF TOTAL EXPENDITURE BY ACTIVITY

	Consolidated		University	
	2019/20	2018/19	2019/20	2018/19
	£000	£000	£000	£000
Academic schools	13,528	14,197	13,887	14,197
Academic services	4,271	5,177	4,271	5,177
Research grants & contracts	1,683	1,900	1,665	1,884
Other services rendered	680	508	507	236
Residences, catering and conferences	2,209	3,110	2,172	3,002
Premises	7,514	8,096	7,514	8,096
Administration & central services	9,657	7,845	9,284	7,836
Other expenses	1,374	4,729	1,374	4,729
Total per income and expenditure account	**40,916**	**45,562**	**40,674**	**45,157**

10. TAXATION (consolidated and university)

	2019/20	2018/19
	£000	£000
UK Corporation Tax payable	-	-
	-	**-**

11. OTHER OPERATING EXPENSES

	Consolidated		University	
	2019/20	2018/19	2019/20	2018/19
	£000	£000	£000	£000
External auditors – audit fees	112	71	100	66
External auditors – non-audit fees	2	-	-	-
Internal audit	31	44	31	44
Grants to QMU Students Union	252	240	252	240
Other expenses	10,504	11,328	10,340	11,073
	10,901	**11,683**	**10,723**	**11,423**

NOTES TO THE FINANCIAL STATEMENTS

12. **TANGIBLE ASSETS**
Consolidated and University

	Freehold land & buildings	Fixtures, fittings & equipment		TOTAL
	Owned	Owned	Held under finance leases	
	£000	£000	£000	£000
Cost or valuation:				
At 1 August 2019	129,907	9,704	1,271	140,882
Disposals at cost	-	(14)	-	(14)
Additions at cost	-	940	-	940
Revaluation of buildings	(2,759)	-	-	(2,759)
At 31 July 2020	127,148	10,630	1,271	139,049
Depreciation:				
At 1 August 2019	3,462	8,188	1,271	12,921
Written off on disposals	-	(14)	-	(14)
Written back due to revaluation	(7,927)	-	-	(7,927)
Provided during the year	4,465	849	-	5,314
At 31 July 2020	-	9,023	1,271	10,294
Net book amount at 31 July 2020	**127,148**	**1,607**	**-**	**128,755**
Net book amount at 1 August 2019	126,445	1,516	-	127,961
Analysis of net book amount at 31 July 2020				
Financed by capital grant	7,558	-	-	7,558
Other	119,590	1,607	-	121,197
	127,148	1,607	-	128,755

The valuation of the academic estate was carried out at 31 July 2020 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 student accommodation was valued as at 31 July 2020, also by Gerald Eve LLP. This valuation was prepared in accordance with the requirements of the RICS Valuation - Global Standards (July 2017 edition) and Financial Reporting Standard 102 and the 2019 Statement of Recommended Practice 'Accounting for Further and Higher Education'. The valuation was undertaken on a Fair Value basis, equated to Market Value on the assumption of a continuation of the existing use. The valuations are subject to a material valuation uncertainty, arising as a result of the COVID-19 pandemic. Further detail is provided in paragraph (N) in the Statement of Principal Accounting Policies.

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

The University has a modest collection of works of art and other items of historical interest. No value is included within fixed assets in respect of this collection as it is not considered to be material.

NOTES TO THE FINANCIAL STATEMENTS

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 2019 & 31 July 2020
			%	£
QMU Enterprises Ltd	Scotland	Ordinary £1 shares	100	100
				100

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

14. TRADE AND OTHER RECEIVABLES

Amounts falling due within one year:	Consolidated		University	
	2020 £000	2019 £000	2020 £000	2019 £000
Trade debtors	246	858	243	677
Prepayments and accrued income	2,276	851	2,276	784
Amounts due from subsidiary company	-	-	463	364
	2,522	**1,709**	**2,982**	**1,825**

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Consolidated		University	
	2020 £000	2019 £000	2020 £000	2019 £000
Secured loans (see note 16)	1,492	1,492	1,492	1,492
Trade creditors	1,197	1,886	1,192	1,885
Social security and other taxation payable	494	568	494	568
Accruals and deferred income	4,058	4,238	4,003	4,027
Unsecured loans	31	35	31	35
	7,272	**8,219**	**7,212**	**8,007**

The secured long-term loan facility with Barclays Bank plc is £29.1 million, and has a final maturity date of 17 December 2024. The loan is secured over part of the campus site at Musselburgh. The University has entered into a fixed-rate arrangement in order to protect itself against any significant fluctuations in interest rates. The terms of this arrangement are commercially confidential.

NOTES TO THE FINANCIAL STATEMENTS

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

	Consolidated and University	
	2020	2019
	£000	£000
Secured loans (see note 15)	27,595	29,086
Unsecured loans	98	125
Deferred capital grants	7,558	8,207
	35,251	**37,418**
Analysis of secured loans:-		
Due between one and two years	1,492	1,492
Due between two and five years	4,475	4,475
Due in five years or more	21,628	23,119
Total due after more than one year	27,595	29,086
Due within one year (note 15)	1,492	1,492
Total secured loans	**29,087**	**30,578**
Analysis of unsecured loans:-		
Due between one and two years	31	35
Due between two and five years	67	90
Due in five years or more	-	-
Total due after more than one year	98	125
Due within one year (note 15)	31	35
Total unsecured loans	**129**	**160**

Analysis of deferred capital grants

	Consolidated and University	
	2020	2019
	£'000	£'000
Opening balance : buildings	8,207	8,735
Opening balance : equipment	-	-
	8,207	8,735
Receivable : buildings	-	-
Receivable : equipment	-	-
	-	-
Release : buildings	649	528
Release : equipment	-	-
	649	528
Closing balance : buildings	7,558	8,207
Closing balance : equipment	-	-
	7,558	**8,207**

NOTES TO THE FINANCIAL STATEMENTS

17. PROVISIONS FOR LIABILITIES
Consolidated and University

Pensions
£'000

	Obligation to fund deficit on USS Pension	Pension enhancements	Defined benefit obligations LGPS	Total pensions provisions
	£'000	£'000	£'000	£'000
At 1 August 2019	1,080	3,011	15,325	**19,416**
Utilised in year	(28)	(216)	-	**(244)**
Transfer (to)/from income & expenditure account	(309)	51	15,659	**15,401**
At 31 July 2020	**743**	**2,846**	**30,984**	**34,573**

The University has a liability to fund the past deficit on the Universities Superannuation Scheme (USS). This obligation arises from the contractual obligation with the pension scheme for total payments relating to benefits arising from past performance. The University has assessed future staff levels within the USS scheme and salary inflation over the period of the contractual obligation in assessing the value of this provision. Further information is provided in note 21(C).

The University also has a liability for pension enhancements payable to former members of staff who have taken early retirement in prior years. An actuarial valuation of the amount of this liability was carried out by Hymans Robertson, Actuaries, at 31 July 2020, on the basis of valuation prescribed by FRS 102, and using the same set of assumptions as are set out in note 21 in relation to the valuation of the Local Government Pension Scheme.

Detail of the movement in the Local Government Pension Scheme (LGPS) provision is set out in note 21(A).

18. **ENDOWMENT RESERVES** **Consolidated and University**

	Unrestricted	Restricted Expendable	Restricted Permanent	Restricted Total	Total
	£000	£000	£000	£000	£000
Balance at 1 August 2019	-	595	47	642	642
Income for year	-	339	-	339	339
Expenditure for year	-	(160)	-	(160)	(160)
At 31 July 2020	**-**	**774**	**47**	**821**	**821**
Represented by:					
Capital value	-	-	35	35	35
Accumulated income	-	774	12	786	786
	-	**774**	**47**	**821**	**821**

NOTES TO THE FINANCIAL STATEMENTS

19. REVALUATION RESERVE

	Consolidated and University 2020 £000	Consolidated and University 2019 £000
At 1 August	61,412	31,132
Revaluation Gains	5,168	30,614
Release to general reserve	-	(334)
At 31 July	**66,580**	**61,412**

20. CONSOLIDATED RECONCILIATION OF NET DEBT

Consolidated and University

	£000
Net debt at 1 August 2019	22,656
Increase in cash and bank balances	(690)
Secured loans repaid	(1,491)
Unsecured loans repaid	(31)
Net debt at 31 July 2020	**20,444**

Analysis of net debt	Consolidated and University 2020 £000	Consolidated and University 2019 £000
Cash at bank and in hand	(8,772)	(8,082)
Borrowings : amounts falling due within one year		
Secured loans	1,492	1,492
Unsecured loans	31	35
	1,523	1,527
Borrowings : amounts falling due after more than one year		
Secured loans	27,595	29,086
Unsecured loans	98	125
	27,693	29,211
Net debt as at 31 July	**20,444**	**22,656**

NOTES TO THE FINANCIAL STATEMENTS

21. **PENSIONS AND SIMILAR OBLIGATIONS**

The University's employees belong to three principal pension schemes, the Scottish Teachers Pension Scheme (STPS), the Local Government Pension Scheme (LGPS) and the Universities Superannuation Scheme (USS). The total pension cost for the year was £4,058,000 (2018/19: £5,833,000).

	Consolidated and University	
	Year ended 31 July 2020	**Year ended 31 July 2019**
The total pension charge is analysed as follows:-	**£000**	**£000**
Lothian Pension Fund (LGPS)	2,243	3,211
Scottish Teachers' Pension Scheme	1,823	1,642
Universities Superannuation Scheme	(8)	980
	4,058	**5,833**

Estimated employers' pension contributions for the year to 31 July 2021 are £3,898,000.

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 2017 updated to 31 July 2020 by a qualified independent actuary, Hymans Robertson LLP.

Assumptions at	**31 July 2020**	**31 July 2019**	**31 July 2018**
Pension increase rate	2.2%	2.4%	2.4%
Salary increase rate	3.9%	4.1%	4.1%
Discount rate	1.4%	2.1%	2.8%

The fund is valued every three years by professionally qualified independent actuaries using the projected unit credit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the scheme actuary reviews the progress of the scheme. The actuary has indicated that the resources of the scheme are likely, in the normal course of events, to be sufficient to meet the liabilities as they fall due at the level specified by the scheme regulations. The currently agreed employer's contribution rate for the University increased from 19.5% to 20.0% with effect from 1 April 2020..

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

	31 July 2020 No. of years	**31 July 2019 No. of years**
Current pensioners		
Males	21.7	21.7
Females	24.3	24.3
Future pensioners		
Males	24.7	24.7
Females	27.5	27.5

NOTES TO THE FINANCIAL STATEMENTS

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

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

Analysis of the amount shown in the balance sheet

	Value at 31 July 2020 £000	**Value at 31 July 2019 £000**	**Value at 31 July 2018 £000**	**Value at 31 July 2017 £000**	**Value at 31 July 2016 £000**
Estimated employer assets (A)	60,469	63,223	57,343	57,322	50,644
Present value of scheme liabilities	(90,773)	(77,851)	(62,495)	(68,492)	(63,303)
Present value of unfunded liabilities	(680)	(697)	(671)	(701)	(769)
Total value of liabilities (B)	**(91,453)**	**(78,548)**	**(63,166)**	**(69,193)**	**(64,072)**
Net pension liability (A) – (B)	**(30,984)**	**(15,325)**	**(5,823)**	**(11,871)**	**(13,428)**

Analysis of movements in the present value of the scheme liabilities

	31 July 2020 £000	**31 July 2019 £000**
Opening defined benefit obligation	**78,548**	**63,166**
Current service cost	3,018	2,276
Interest cost on defined benefit obligation	1,672	1,789
Contributions by members	429	437
Actuarial losses / (gains)	9,071	11,019
Past service costs	21	1,074
Unfunded benefits paid	(47)	(49)
Benefits paid	(1,259)	(1,164)
Closing defined benefit obligation	**91,453**	**78,548**

Analysis of movement in the market value of the scheme assets

	31 July 2020 £000	**31 July 2019 £000**
Opening fair value of employer assets	**63,223**	**57,343**
Expected return on assets	(4,652)	3,660
Contributions by members	429	437
Contributions by employer	1,394	1,334
Contributions in respect of unfunded benefits	47	49
Interest income on plan assets	1,334	1,613
Unfunded benefits paid	(47)	(49)
Benefits paid	(1,259)	(1,164)
Closing fair value of employer assets	**60,469**	**63,223**

The significant increase in the net pension liability at 31 July 2020 compared with the position at 31 July 2019 is in line with the experience of all LGPS employers. There are two main reasons for this increase.

1. For all LGPS funds, investment returns have been extremely volatile over the latter part of the period as a result of the COVID-19 pandemic, and whilst for many funds the significant asset losses experienced in the first quarter of 2020 have been partially recovered in the period to the end of July, closing asset values still show a reduction from the 2019 position.
2. The default financial assumptions at 31 July 2020 result in a significantly lower net discount rate compared to 31 July 2019, mainly arising from a fall in AA corporate bond yields. This serves to increase significantly the value placed on past service obligations.

NOTES TO THE FINANCIAL STATEMENTS

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

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

Guaranteed minimum pension (GMP) was accrued by members of the Local Government Pension Scheme (LGPS) between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number of reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. However overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the Second State Pension. The introduction of the new Single State Pension in April 2016 disrupted this arrangement and brought uncertainty over the ongoing indexation of GMPs, which could lead to inequalities between men and women's benefits. As an interim solution to avoid this problem, GMP rules were changed so that the responsibility for ensuring GMPs kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age between 6 April 2016 and 5 April 2021. This new responsibility led to increased costs for schemes (including the LGPS) and hence for scheme employers. In calculating the level of provision for inclusion in the financial statements at 31 July 2019, the fund's actuary carried out calculations in order to estimate the impact that the GMP indexation changes would have on the liabilities of Queen Margaret University for financial reporting purposes. This increased liability was reflected in the provision shown in the financial statements at 31 July 2019 as a past service cost, and this element has been rolled forward and is included in the provision as at 31 July 2020 on the same basis.

In April 2015, wholesale changes were made to the Local Government Pension Scheme in Scotland to reform the scheme's benefits structure. These changes were implemented as part of wider reforms to public sector pensions introduced by the UK Government's Public Service Pensions Act 2013. In the LGPS, these changes included moving benefit accrual from a final salary to a career average basis, and linking members' normal retirement age to their state pension age. Transitional provisions were introduced for members who were within 10 years of normal retirement age in 2012. These transitional protection arrangements applied across public service pension schemes where older members were permitted to remain in their pre-2015 schemes, In the LGPS all members were moved onto the new arrangements from 1 April 2015. However those within 10 years of their normal pension age on 1 April 2012 were protected through a statutory 'underpin'. This underpin protection provides that additional checks are undertaken for qualifying members to ensure that the career average pension payable under the reformed LGPS is at least at high as the member would have been entitled to receive under the final salary scheme. Where it is not as high, scheme regulations provide that an addition must be applied to the member's career average pension to make up the shortfall. In the 'McCloud' and 'Sargeant' court cases (which related to the judicial and firefighters' pension schemes respectively), the Court of Appeal found that the transitional protection arrangements directly discriminated against younger members in those schemes. In July 2019, the UK government confirmed its view that these rulings had implications for all the main public service pension schemes, including the LGPS, and that the discrimination would require to be addressed in all the relevant schemes, regardless of whether members had lodged a legal claim. In the 2019 financial statements, the University included an additional provision to reflect the potential additional costs arising out of these court decisions. Subsequently, the Scottish Public Pensions Agency (SPPA) has issued proposals to amend the LGPS underpin to address the age discrimination included in scheme reform. The proposal is that only members who were active in the LGPS at both 31 March 2013 and 1 April 2015 would be eligible for the benefit underpin. The impact of these restricted eligibility criteria is that the adjustment applied to liabilities will be lower than previously expected, and this updated position has been reflected in the calculation of the provision as at 31 July 2020. In calculating the amount of the provision at 31 July 2020, the assumptions used in calculating the McCloud element of the liability have been refined based on the most recent data available. This has led to an increase in the liability and the expense of £275,000.

B) Scottish Teachers' Pension Scheme (STPS)

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

Work on the most recent valuation was suspended by the UK Government pending the decision from the Court of Appeal (McCloud (Judiciary scheme)/Sargeant (Firefighters' Scheme) cases) that held that the transitional protections provided as part of the 2015 reforms unlawfully discriminated on the grounds of age. The cost cap will be reconsidered once the final decision on a remedy and how this affects the Scottish Teachers' Pension Scheme is known and its impact fully assessed in relation to any additional costs to the scheme.

The scheme is an unfunded multi-employer defined benefit scheme. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has accounted for its contributions as if it were a defined contribution scheme. The University has no obligation for other employers' obligations to the multi-employer scheme.

C) Universities Superannuation Scheme (USS)

The University participates in the Universities Superannuation Scheme, which is a hybrid pension scheme, providing defined benefits (for all members), as well as defined contribution benefits. The assets of the scheme are held in a separate trustee-administered fund.

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

The University has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit). In accordance with the requirements of the SORP, the University recognises a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit), and therefore an expense is recognised. The latest available complete actuarial valuation of the Retirement Income Builder is at 31 March 2018 (the valuation date), which was carried out using the projected unit method. A valuation as at 31 March 2020 is underway but not yet complete.

Since the University cannot identify its share of the assets and liabilities in the Retirement Income Builder section of the scheme, the following disclosures reflect those relevant for the section as a whole.

The 2018 valuation was the fifth valuation for the scheme under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £63.7 billion and the value of the scheme's technical provisions was £67.3 billion indicating a shortfall of £3.6 billion and a funding ratio of 95%.

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

C) Universities Superannuation Scheme (USS) (continued)

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

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

The current life expectancies on retirement at age 65 are:

	2018 valuation	**2017 valuation**
Males currently aged 65 (years)	24.4	24.6
Females currently aged 65 (years)	25.9	26.1
Males currently aged 45 (years)	26.3	26.6
Females currently aged 45 (years)	27.7	27.9

A new deficit recovery plan was put in place as part of the 2018 valuation, which requires payment of 2% of salaries over the period 1 October 2019 to 30 September 2021 at which point the rate will increase to 6%. The 2020 deficit recovery liability reflects this plan. The liability figures have been produced using the following assumptions:

	2020	**2019**
Discount rate	0.73%	2.44%
Pension increases (CPI)	2.00%	2.11%

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 2020 on the basis of valuation prescribed by FRS 102. The total provision in respect of this liability is £2.846 million (2019: £3.011 million).

22. **POST BALANCE SHEET EVENT**

In September 2020, the Trustee of the USS Pension Scheme (USS) launched a consultation with Universities UK on key aspects of the scheme's 2020 valuation. The scope of this exercise covers a wide range of potential outcomes - reflecting issues still to be resolved on employer support as well as uncertainties for the higher education sector and financial markets in general - but, based on the proposals put forward, the Trustees have indicated that the fund's deficit at 31 March 2020 could range from between £9.8bn and £17.9bn. This would represent a significant deterioration from the £3.6bn deficit established under the 2018 valuation (and against which the current recovery plan is set) and a return to the levels of shortfall experienced under the previous 2017 valuation (£11.8bn).

At this stage no outcome has been agreed and the USS Trustee has until 30 June 2021 to conclude the valuation. As an early indication of the scale of impact, it has been estimated that the cost of continuing to offer current benefits in this context could reach between 40.8% to 67.9% of payroll. However, this range is purely an illustration and is before any other measures are considered to reduce the deficit. This matter is still being widely debated across the sector and by the Trustee of the Pension Scheme. For the 2019-20 financial year, however, this is considered a non-adjusting event.

23. **FINANCIAL INSTRUMENTS**

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

NOTES TO THE FINANCIAL STATEMENTS

24. **HARDSHIP AND CHILDCARE FUNDS**

	2019/20 £000	2018/19 £000
HARDSHIP FUND (undergraduate and postgraduate)		
Balance at 1 August	-	-
Amounts received from Student Awards Agency for Scotland	261	232
Amount vired (to) /from Childcare Fund	53	50
	314	282
Disbursed to students	(313)	(278)
Other costs	(1)	(3)
Refunded to Student Awards Agency for Scotland	-	(1)
Balance unspent at 31 July	-	-
CHILDCARE FUND		
Balance at 1 August	-	-
Amounts received from Student Awards Agency for Scotland	149	140
	149	140
Disbursed to students	(96)	(90)
Amount vired (to) / from Hardship Fund	(53)	(50)
Refunded to Student Awards Agency for Scotland	-	-
Balance unspent at 31 July	-	-

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