

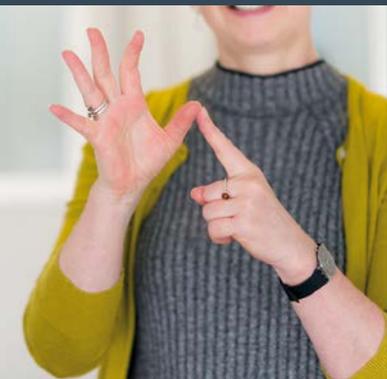


Queen Margaret University
EDINBURGH

Strategic Report and Financial Statements

FOR THE YEAR ENDED 31st July 2018

Registered No. SC007335
Scottish Charity No. SC002750



CONTENTS

	<i>PAGE</i>
Principal's report	3
Strategic report	4 – 7
Directors' report	8 – 10
Corporate governance statement	11 – 14
Responsibilities of the University Court	15
Independent auditor's report	16 – 17
Statements of comprehensive income and expenditure	18
Statements of changes in reserves	19
Balance sheets as at 31 July 2018	20
Consolidated statement of cash flows	21
Statement of principal accounting policies	22 – 25
Notes to the financial statements	26 – 39

PRINCIPAL'S REPORT for the year ended 31 July 2018



In the year in which we celebrated the 10th anniversary of our move to our new campus, we have continued to make good progress towards fulfilling our vision of being a university of ideas and influence. At the same time, we have been adapting to socioeconomic changes and optimising our operations through our 'Transformation' project, to protect our long-term financial sustainability.

One of the most significant developments at QMU in the year has been the announcement that we are expanding into teacher education. From September 2019, we will be offering a new undergraduate degree that will produce the next generation of primary school teachers in Scotland. We will also be offering a postgraduate diploma in education in home economics, which will develop teachers who can fill vital posts in secondary schools and positively influence young people's knowledge and skills relating to food, nutrition and health. Over time, these developments will result in a significant (c.15%) increase in the number of students that we teach.

Other strategic developments included the launch of the Queen Margaret Business School. The School encompasses our expanding portfolio of postgraduate and undergraduate programmes in business, accounting and finance, marketing, events, and hospitality and tourism management; blended and online provision; and executive education. In a separate development, the School is participating in the Government's Graduate Apprenticeship scheme and we are looking at opportunities to extend such provision to other academic specialisms. With this scheme, students will come to us through their employers and - combining work and study - will achieve a degree in four years.

Early in 2018, we completed a major portfolio review project, to ensure that our courses continue to be focused on the changing needs of students, employers and society. As a result, we have already launched new courses addressing the current and future needs of the creative industries, and of business. Alongside our planned expansion into teacher education, we have further course developments planned in Business, Media & Communications and Health Sciences. National Student Survey results issued in July 2018 show that 82% of our students are satisfied, a 5% improvement on the previous year. We now have the highest student satisfaction rates of all the Edinburgh-based universities and 100% satisfaction scores in a number of course areas.

Increased philanthropic giving is allowing us add to our students' positive experience of university, for example by funding international exchanges and extracurricular projects. An award from the the Big Lottery Fund's Young Start programme is supporting student mental health initiatives at QMU, including providing Scotland's Mental Health First Aid (SMHFA) Training for students.

A successful Quality Assurance Agency (QAA) Enhancement-led Institutional Review (ELIR) in the spring confirmed the effectiveness of our arrangements for managing academic standards and for

enhancing the quality of our student learning experience. Soon after, we were ranked as the top 'post '92' university in Scotland in the latest edition of the Complete University Guide. We have also moved up 16 places in the Guardian university league table. Furthermore, national statistics show that a very high percentage of our undergraduate leavers go on to work or further study within 6 months (97.1% versus a UK sector average of 94.6%).

We continue to focus our work on our flagship areas of health and rehabilitation, creativity and culture, and sustainable business. In research, this is achieved through our nine research and knowledge exchange centres, which have a steadily growing impact and profile. For example, excellent progress continues on our global health experts' £3.5m research project focused on strengthening mental health care and treatment of diabetes and heart disease in countries with weak health systems. The high esteem in which our academic leaders are held is illustrated in the appointment of Professor Jim Scobbie as a panel member of the Research Excellence Framework's Modern Languages and Linguistics Unit of Assessment, which will inform REF 2021. REF is the UK's system for assessing the excellence of research in higher education. Another example is the election of our Dean of Health Sciences, Professor Fiona Coutts, as the Chair of the Council of Deans of Health, Scotland, and Scottish representative to the Council of Deans of Health UK.

We continue to be truly locally engaged and internationally active, with our international partnerships continuing to go from strength to strength. Around 3,000 students are now studying for QMU degrees overseas through such partnerships. Locally, we continue to promote and plan for development of land around QMU to increase the vibrancy of the campus community and support economic development regionally and nationally. This summer it was confirmed that Government funding of £30 million, made available through the Edinburgh City Region Deal, will contribute towards the development of the Edinburgh Innovation Park (EIP) on land next to the campus. EIP is a joint development by QMU and East Lothian Council and is part of a broader masterplan including a commercial hub on campus.

Our activities from this last year demonstrate how QMU is focused both on preparing for society's future needs and addressing pressing issues in the here and now. Through our various specialisms, and our teaching and research, we work to address inequalities, promote health and wellbeing, advance ethical business practices and develop cultural capital. This work, bolstered by our ongoing focus on change and adaptation, will ensure that we fulfil our potential as a university of ideas and influence – in Scotland, Europe and across the world.

Professor Petra Wend PhD FRSA FRSE
Principal and Vice-Chancellor

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, 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 6JU. 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 39 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.

Development of strategic plan

In December 2015 the University Court approved the strategic plan, which had been developed in accordance with the QM150 strategy, details of which are accessible on the University's website. The QM150 strategy is based around the University's vision to be a University of ideas and influence. The strategy sets out the mission for the development of the University over a ten year period, culminating in the 150th anniversary of the founding of the institution in 2025. The strategic plan sets out nine overarching goals which the University wishes to achieve in order to allow the delivery of the strategy by 2025. A key element of the plan is the inclusion of key performance indicators which the University Court uses to monitor progress towards the achievement of the goals set out in the plan (both financial and non-financial). The plan also sets out the processes employed to manage the risks which might inhibit this achievement.

Results for the year

The Group's consolidated results for the year to 31 July 2018 are summarised as follows:-

	2017/18 £million	2016/17 £million
Total income	37.0	39.1
Total expenditure	(42.4)	(39.9)
(Deficit) / surplus for the year	(5.4)	(0.8)
Actuarial (loss) /gain in respect of pension schemes	7.6	3.0
Unrealised surplus on revaluation of land and buildings	-	5.3
Total comprehensive income for the year	2.2	7.5

The main changes in the underlying outturn position compared to 2017/18 were:-

- A reduction of £0.3 million in grant income from the Scottish Funding Council;
- An increase of 0.3 million in income from research grants and contracts;
- A reduction of £2.3 million in other operating income, of which £1.8 million relates to a non-recurrent receipt in respect of an outstanding claim in the previous year;
- An increase of £0.6 million in staff costs, including increases of £0.3 million in salary costs and £0.3 million in pension costs;
- An increase of £1.7 million in other operating expenses, including £1.1 million relating to the write back of income due to the University previously recognised which is no longer recoverable;

QMU Enterprises Ltd generated a profit of £247,000 (2016/17: £181,000), 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, resulted in a net cash inflow of £3.5 million on operating activities (2016/17, £4.5 million inflow). Overall cash balances decreased by £0.3 million (2016/17; £0.4 million increase). Cash balances at 31 July 2018 of £8.1 million (2017: £8.4 million) represented 80 days' expenditure (2017: 85 days).

Key performance indicators

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

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

The second indicator has been adapted from the basket of financial indicators recommended by the FSSG as it is a more appropriate measure for the University, given its relatively high level of borrowings as a proportion of its turnover. The targets are also set at a level which will allow compliance with banking covenants. The results of the annual review undertaken in December 2018, 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%	7.1%

Management of principal risks and uncertainties

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

- Funding from government through the Scottish Funding Council (SFC), the University's main source of income, is likely to suffer from further real-terms reductions over the next few years as a consequence of spending cuts throughout the public sector.
- Recruitment of international students continues to be challenging as a result of difficulties faced by international students in obtaining visas to study in the UK.
- Underlying assumptions contained in the future financial forecasts include an assumption that income from tuition fees and education contracts will increase significantly over the next four years. A review of the University's academic portfolio took place during 2017, which provides an indication that there is scope for the University to increase its income in this area, and progress will continue to be monitored carefully, with possible mitigating actions being planned for in the event that the increase in income is not achieved.
- Pressure on staff costs continues to build, both in terms of pay awards (where the University continues to participate in the UK-wide national negotiating framework) and also in terms of the cost of employers' pension contributions.
- The full implications of the decision for the UK to leave the European Union are still unclear. However, it is likely that this will have an adverse impact on engagement with both students and staff from EU member states, and will introduce additional hurdles in accessing EU funding for research and other activities.

The Court has also made an assessment of a particular risk around the financial sustainability of the University, in light of an anticipated breach of a bank loan covenant measured against the 2017/18 and 2018/19 financial statements. Barclays Bank plc has provided a letter of waiver of the covenant in respect of the year ended 31 July 2018, and has also provided a letter of comfort confirming that it currently does not intend to exercise any of its rights to demand accelerated repayment of the loan, as permitted under the facility agreement, in respect of the anticipated covenant breach for the year to 31 July 2019. The Court has taken assurance from the provision of this letter of comfort in reaching its conclusion that the accounts should be prepared on a going concern basis. In line with FRS 102, and on the advice of the external auditors, the full value of the loan has been shown in Creditors: amounts falling due within one year.

The identification and management of risks is firmly embedded within the University's structure and processes. The institutional corporate risk register, which includes a description of actions undertaken to mitigate risks, is formally reviewed by the Executive Board and the Audit & Risk Committee as well as being discussed by the University Court. The Court also undertakes, from time to time, an exercise to agree its appetite for risk, and to ensure that residual risks, after the application of mitigating actions, sit within the agreed tolerance.

STRATEGIC REPORT (continued)

Borrowings

Borrowings at 31 July 2018 amounted to £32.1 million, (31 July 2017, £33.6 million) relating entirely to a secured loan facility with Barclays Bank plc taken out to fund the campus development at Musselburgh. As noted above, the full amount of the loan has been shown in Creditors: amounts falling due within one year.

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 2018. 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 2018.

The most recent actuarial review of the Scottish Teachers' Superannuation Scheme (STSS) for which full audited results are available was undertaken as at 31 March 2012. As a result of this review, the level of employers' contribution to this scheme was set at 17.2% with effect from 1 September 2015. As the scheme is unfunded, there can be no surplus or shortfall. Pension contribution rates are set by the scheme actuary to meet the cost of pensions as they accrue. The next valuation will be based on scheme data as at 31 March 2016, and any changes arising from that valuation will be applied from 1 April 2019.

The Universities Superannuation Scheme is a hybrid 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.

Social inclusion

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

Student satisfaction

The University has participated in the National Student Survey (NSS) since 2010. The 2018 institutional results showed an overall satisfaction score of 82%, an improvement of 5% over the 2017 results. A particular highlight was an improvement of 5% in scores in the 'Assessment and Feedback' category of the survey (now at 70%), and, within that category, a 21% improvement in the question on timeliness of feedback. In addition, there is a 3% improvement in the score for the question about the helpfulness of comments (now at 70%).

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 the success of our students. We consider that our efforts are being rewarded. Our HESA performance indicator for employability (published in July 2018, and based on 2016-17 leavers' data) is 97.1%. This places us joint third in Scotland for graduate employment and joint 14th in the UK.

STRATEGIC REPORT (continued)

Student involvement

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

Environmental issues

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

Future developments

In order to address the risks set out above, and also to take advantage of further opportunities as they arise, the University is continuing to focus on ensuring that its academic, infrastructure, human resources and financial strategies are closely aligned. A review of the academic portfolio has been undertaken, the results of which are being used to ensure that the University is able to achieve the objectives set out in the QM150 strategic plan, which will allow the University to continue to generate an adequate level of cash in the short- to medium term and to maintain an adequate level of reserves. The Court carries out regular monitoring of the University's financial sustainability, as described above.

The likely 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 it will require to monitor as the Brexit negotiations continue. These include:-

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

The funding environment for Scottish higher education institutions remains challenging, as the level of funds available to the Scottish Government and the Scottish Funding Council continues to decline in real terms. The 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 next year will be a particular challenge, as the University moves towards a revised model of delivery, informed by the outcomes from the recent portfolio review, and as preparations are made for the introduction of the provision of initial teacher education from 2019. 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. In order to facilitate this, the Principal is leading a transformation project, which aims to achieve a reduction and refocussing of the University's cost base whilst at the same time creating an environment which will allow the development of further new and increased sources of income, as signalled through the review of the academic portfolio, to take place.

On behalf of the University Court

Dr Frances Dow, CBE
Chair
5 December 2018

DIRECTORS' REPORT

Directors' and officers' liability insurance

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

Members' liability

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

Employee involvement

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

Employment of disabled persons

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

Creditors' payment policy

Unless special terms are agreed, it is the University's policy to pay invoices 30 days from the date of the invoice (in accordance with the CBI prompt payment code). In agreements negotiated with suppliers, the University endeavours to include and abide by specific payment terms. At 31 July 2018, trade creditors represented 35 days of relevant expenditure (2017: 35 days). Interest paid under the Late Payment of Commercial Debts (Interest) Act 1998 was £nil (2016/17: £nil).

Going Concern

The University's activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report, which also includes information on cash flows and borrowing facilities. Demand from students for the University's courses remains strong. Consequently, the University Court believes that the University is well placed to manage its business risks successfully despite the ongoing, uncertain economic outlook. As noted above in the strategic report in the section on Management of principal risks and uncertainties, the Court has assessed a particular risk around an anticipated breach of one of the bank loan covenants when measured against the 2017/18 and 2018/19 financial statements, and has taken into account a covenant waiver and a letter of comfort issued by Barclays Bank plc in considering its assessment of going concern.

In accordance with the recommendations from the Higher Education Financial Sustainability Strategy Group (FSSG), the University Court undertakes a formal annual assessment of the University's financial sustainability. The University Court has also undertaken an assessment of going concern and liquidity risk, taking into account the principles and recommendations set out in the Sharman report into going concern and liquidity risks. As a result of this exercise, the University Court has a reasonable expectation that the University has adequate resources to enable it to continue in operational existence for the foreseeable future, and that it is appropriate to adopt the going concern basis of accounting in preparing the annual financial statements.

DIRECTORS' REPORT (continued)

Membership Of The University Court

Name		Attendance record	
Dr Frances Dow CBE (Chair)	Appointed 17 March 2016	6/6	Former Vice Principal, University of Edinburgh
Linda McPherson (Vice-Chair)	Appointed 1 October 2014	6/6	Former Senior Director - Food and Drink, Tourism & Textile, Scottish Enterprise
Elaine Acaster	Appointed 28 June 2017	5/6	Former Vice Principal, Royal Veterinary College, University of London
David Banks	Appointed 1 December 2016 Retired 31 October 2017	1/1	Staff member, Appointed by Senate
Carolyn Bell	Appointed 1 October 2016	3/6	Solicitor
James Bradshaw	Appointed 1 May 2010 Retired 30 April 2018	4/4	Former Deputy Vice-Chancellor (Resources & Business Development), University of Sunderland
Dr Richard Butt	Appointed 1 September 2016	6/6	Deputy Principal <i>Ex Officio</i>
Professor Graham Caie CBE	Appointed 1 December 2014	5/6	Former Chair, National Library of Scotland Governance Committee, Vice President of the Royal Society of Edinburgh
Colin Duffus	Appointed 1 June 2016	6/6	Elected Professional Services Staff Member
Dr Anthony Falconer, OBE	Appointed 1 October 2013	6/6	Retired Consultant Obstetrician and Gynaecologist. Former President Royal College of Obstetricians and Gynaecologists.
Cynthia Guthrie	Appointed 1 December 2015	5/6	Joint Managing Director, Guthrie Group Limited
Francis Lennon, OBE	Appointed 1 October 2016	5/6	Former Head Teacher
Jacqueline Macdonald	Appointed 1 October 2013	6/6	Partner, Small Green Spaces
Ruth Magowan	Appointed 11 December 2017	4/4	Staff member, Appointed by Senate
Ken McGarrity	Appointed 1 October 2016	5/6	Former Finance Director, Nairn's Oatcakes
Miller McLean	Appointed 1 January 2011 Retired 31 December 2017	2/2	Chairman, Adam & Co Group plc, Retired Group Secretary, Royal Bank of Scotland
Melanie Moreland	Appointed 1 January 2018	3/4	Senior Manager/Delivery Manager, Royal Bank of Scotland
Margaret O'Connor	Appointed 1 October 2014	4/6	Chief Executive, Art in Healthcare
Robert Pattullo	Appointed 23 May 2018	2/2	Start-up Company Mentor. Former Vice-Chair Citizens' Advice Edinburgh.
Sarah Phillips	Appointed 28 June 2017	5/6	Solicitor
Megan Richardson	Appointed 10 June 2016 Retired 31 March 2018	3/3	Student Vice-President <i>Ex Officio</i>
Stewart Sands	Appointed 10 June 2017	6/6	Student President <i>Ex Officio</i>
Eurig Scandrett	Appointed 1 December 2016	5/6	Elected Academic Staff member
Andrew Scott	Appointed 28 June 2017	5/6	Director of Population Health, Scottish Government
Laura Young MBE	Appointed 1 October 2016	5/6	Founder of the Teapot Trust
Professor Petra Wend	Appointed 1 September 2009	5/6	Principal & Vice-Chancellor <i>Ex Officio</i>
Rebecca Wilson	Appointed 10 June 2018	1/1	Student Vice-President <i>Ex Officio</i>

DIRECTORS' REPORT (continued)

Membership of University Court Committees during the year to 31 July 2018

Audit and Risk Committee

Name		Attendance record
Miller McLean	Convener – retired 31 December 2017	2/2
Professor Graham Caie	Appointed 1 October 2017, Convener from 1 January 2018	3/3
Elaine Acaster		4/4
Carolyn Bell		2/4
Dr Anthony Falconer		3/4

Finance & Estates Committee

Name		Attendance record
James Bradshaw	Convener – retired 30 April 2018	4/4
Ken McGarrity	Convener from 1 May 2018	4/5
Dr Richard Butt		5/5
Cynthia Guthrie		4/5
Linda McPherson		4/5
Robert Pattullo	Appointed 23 May 2018	1/1
Andrew Scott	Appointed 23 May 2018	0/1
Professor Petra Wend		3/5

Nominations Committee

Name		Attendance record
Dr Frances Dow	Convener	1/1
Colin Duffus		1/1
Dr Anthony Falconer		1/1
Jacqueline Macdonald		1/1
Linda McPherson		1/1
Professor Petra Wend		0/1
Stewart Sands		1/1

Senior Management Remuneration Committee

Name		Attendance record
Linda McPherson	Convener	1/1
James Bradshaw	Retired 30 April 2018	1/1
Dr Frances Dow		1/1
Jacqueline Macdonald		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

Dr Frances Dow, CBE
Chair
5 December 2018

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 2018. The University Court also considers that the University is compliant with the principles of the Scottish Code of Good Higher Education Governance 2017.

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

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

The full Statement of Primary Responsibilities can be found as part of the Court Members' Handbook on the University website: <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 2018 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 Executive Board, has in place local procedures detailing action to be taken in response to a potential or actual disaster. Risk management is a standing item on the agenda of the Executive Board and the Audit and Risk Committee, and regular reports are made to the University Court.

The University Court comprises lay and other categories of persons appointed under the University's Statutory Instrument. The majority are non-executive, and the roles of Chair and Vice-Chair of the University Court are separated from the role of the University's chief executive, the Principal and Vice-Chancellor. Under the 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 2017-18. 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 2017/18 included:

- New governors of Scottish Institutions (Leadership Foundation for Higher Education, October 2017)
- Being an Effective Student Governor (Leadership Foundation for Higher Education, September 2017)
- Governor Development: Scotland (Leadership Foundation for Higher Education, February 2018)
- Companies House First Time Directors Seminar October 2017
- Court Strategic Away Days (7 and 8 February 2018)

New members also received a formal induction session supported by the Court Members' Handbook, published October 2016 and updated October 2017.

<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, approval of overall institutional budgets and major developments and the receipt of regular reports from executive officers on the day to day operations of its business and its subsidiary companies. The University Court has five Ordinary meetings per annum, and has delegated authority to a number of Committees, as set out below. During the year under review, an Extraordinary Meeting was held in May 2018 to consider aspects of the University's land development strategy and proposals to develop an innovation park.

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.

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 members of the Committee. The Committee meets at least annually with the external auditors for independent discussion in the absence of executive officers. The identification, assessment and management of risk is a standing item considered at each meeting of the 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 of the University's estate.

The Nominations Committee makes recommendations to the University Court on appointments to vacancies in the University Court lay membership, and on the re-appointment of such members under the terms of the University's governing instruments. It also makes recommendations on member appointments to University Court committees on the basis of the committee's skills matrix. The Committee oversees the arrangements for the appointment of the Chair of Court, and makes recommendations on the appointment of the Chancellor.

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

The Executive Board comprises the Principal, the Deputy Principal and five other senior managers. It receives reports on key performance and risk indicators, and possible control issues are brought to its attention. The Executive Board and the Audit & Risk Committee also receive regular reports from the internal auditors. The Audit & Risk Committee's role in this area is confined to a high level review of the arrangements for internal financial control. The University Court receives reports as appropriate on risk and control issues from management and the Audit & Risk Committee.

CORPORATE GOVERNANCE STATEMENT (continued)

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 been engaged in detailed work on the University's compliance with the Act since the publication of the original Higher Education (Scotland) Governance Bill, with each provision of the Act being addressed in stages. The University is currently in compliance with key sections of the Act, including the requirements set out for the appointment of the senior lay member, which were addressed by the University when it secured parliamentary approval in 2015 for amendments to its Order of Council.

The majority of the Act's remaining requirements concerning the composition of the governing body are accommodated currently within the Queen Margaret University, Edinburgh (Scotland) Order of Council 2007, with the exception of the additional category of membership of '2 persons by nomination of a Trades Union'. The maximum membership of the University Court will be amended to 26 to accommodate Court's approval that a Senate appointee be retained in membership of the University Court. In approving revisions to its composition, the University Court sought to maintain, as far as possible, a size and composition that did not depart too far from that judged to be effective under the Court's most recent externally facilitated effectiveness review. The skills matrix maintained by the Nominations Committee identifies gaps in skills or experience that form the basis of candidate specification in member recruitment rounds, while equality monitoring data provides assurance in terms of compliance under the Gender Balance on Public Boards and equality legislation.

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 is no requirement to amend the Order of Council to bring it in line with the legislation.

Revisions to the University's Statutory Instrument were progressed with the Scottish Government during 2017-18, and at the time of writing, are subject to drafting by the Scottish Government Legal Directorate.

A revised Scottish Code of Good Higher Education Governance was published in 2017 which replaced the 2013 Scottish Code of Good Higher Education Governance. Academic year 2017-18 is considered a transitional year for compliance with the 2017 Code. In the opinion of the University Court, the University complied with all the principles and provisions of the 2013 Scottish Code of Good Higher Education Governance throughout the year, and complied with the principles and provisions of the 2017 Scottish Code of Good Higher Education Governance by the end of July 2018.

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 revised Scottish Code of Good Higher Education Governance was published in October 2017. The University Court completed a full mapping of its alignment with the updated requirements of the revised Code, and has completed a number of actions arising from that mapping.

Throughout 2017/18, the University Court undertook a full suite of Key Performance Indicators (KPIs) that it has established as part of its wider assessment of its effectiveness. A review of KPIs during 2017-18 was reviewed by the Court at its first meeting in Session 2018-19.

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. As part of its commitment to mainstreaming of equality, the University refreshed the membership of the Committee during 2017-18 to increase the academic staff constituency from two members from each of the two Schools (four academic members), to one from each Division (seven academic members).

CORPORATE GOVERNANCE STATEMENT (continued)

Equality and Diversity (continued)

Embedding equality and diversity in our governance structures and in our strategic planning process is critical to mainstreaming equality and diversity, as is defining responsibilities, setting performance measures and monitoring progress against those measures. The University's Mainstreaming Report and Equality Outcomes, which sets out progress on mainstreaming equality and establishes a number of outcomes for the period 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/>

The University's Gender Action Plan, submitted to the SFC in July 2017, 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 will be reported as part of the University's Public Sector Equality Duties in April 2019.

At the time of writing, the gender balance of membership of Court sits at 56% female and 44% 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, has reviewed the effectiveness of the Group's system of internal financial control as part of a rolling programme. The Committee has formed the opinion that the University's systems provide a reasonable basis for maintaining control and ensuring the achievement of economy, efficiency and effectiveness. In reaching its opinion, the Committee has taken into account the opinions of the internal and external auditors. The Committee has noted that University management is continuing to work towards further strengthening of the control environment with a particular focus on those areas of significant risk within the wider control framework. Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material mis-statement or loss.

On behalf of the University Court

Dr Frances Dow, CBE
Chair
5 December 2018

Professor Petra Wend
Principal & Vice-Chancellor

RESPONSIBILITIES OF THE UNIVERSITY COURT

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

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

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

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

The University Court has taken reasonable steps to:

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

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

Opinion

We have audited the financial statements of Queen Margaret University, Edinburgh ('the parent institution') and its subsidiaries (the 'group') for the year ended 31 July 2018 which comprise Statements of Comprehensive Income and Expenditure, Statements of Changes in Reserves, Balance Sheets, Consolidated Statement of Cash Flows and the related notes 1 to 21, 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 (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 2018 and of the group and parent institution's income and expenditure, recognised gains and losses, and statement of cash flow for the year for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, and relevant legislation; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of the Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

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

Conclusions relating to going concern

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 have 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 Finance 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.

Opinions 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 Strategic Report and Financial Statements, have been prepared in accordance with applicable legal requirements.

Opinion on other matters prescribed by the terms of our engagement

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.

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

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 determine 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 intend to liquidate the group or the parent institution or to cease operations, or have 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 the 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 the 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
12 December 2018

Notes:

1. The maintenance and integrity of the 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 2018

	Note	2017/18		2016/17 (as restated)	
		£000 Consolidated	£000 University	£000 Consolidated	£000 University
INCOME					
Tuition fees and education contracts	1	12,911	12,911	12,885	12,885
Scottish Funding Council grants	2	15,426	15,426	15,681	15,681
Research grants and contracts	3	1,954	1,917	1,601	1,532
Other income	4	6,477	6,258	8,777	8,564
Investment income	5	27	26	13	13
Donations and endowments	6	239	239	195	195
Total income		37,034	36,777	39,152	38,870
EXPENDITURE					
Staff costs	7	24,041	23,913	23,423	23,312
Other operating expenses	11	11,550	11,421	9,832	9,661
Depreciation	12	5,175	5,175	4,950	4,950
Interest and other finance costs	8	1,641	1,641	1,720	1,720
Total expenditure		42,407	42,150	39,925	39,643
Surplus / (deficit) before tax		(5,373)	(5,373)	(773)	(773)
Taxation	10	-	-	-	-
(Deficit) / surplus for the year		(5,373)	(5,373)	(773)	(773)
Unrealised surplus on revaluation of land and buildings		-	-	5,337	5,337
Actuarial gain /(loss) in respect of pension schemes		7,677	7,677	3,011	3,011
Total comprehensive income for the year		2,304	2,304	7,575	7,575

Represented by:-

Endowment comprehensive income for the year	74	74	12	12
Unrestricted comprehensive income for the year	2,230	2,230	2,362	2,362
Revaluation reserve comprehensive income for the year	-	-	5,201	5,201
	2,304	2,304	7,575	7,575

All items of income and expenditure relate to continuing activities.

STATEMENTS OF CHANGES IN RESERVES

For the Year Ended 31 July 2018

Consolidated
£000s

	Income & Expenditure Account		Revaluation reserve	Total
	Endowments	Unrestricted		
Balance at 1 August 2016	479	19,199	7,399	27,077
Prior period adjustment to recognise revaluation gain attributable to prior years	-	-	18,532	18,532
Adjusted Balance at 1 August 2016	479	19,199	25,931	45,609
Surplus/ (deficit) from the income & expenditure statement	12	2,226	-	2,238
Prior period adjustment to recognise revaluation gain attributable to 2016/2017	-	-	5,337	5,337
Transfer between revaluation and income & expenditure reserves	-	136	(136)	-
	12	2,362	5,201	7,575
Balance at 1 August 2017	491	21,561	31,132	53,184
Surplus/ (deficit) from the income and expenditure statement	74	2,230	-	2,304
Revaluation gain	-	-	-	-
	74	2,230	-	2,304
Balance at 31 July 2018	565	23,791	31,132	55,488

BALANCE SHEETS AS AT 31 JULY 2018

	Note	Consolidated (as restated)		University (as restated)	
		2018 £000	2017 £000	2018 £000	2017 £000
FIXED ASSETS					
Tangible assets	12	102,071	106,013	102,071	106,013
Investments	13	-	-	-	-
		<u>102,071</u>	<u>106,013</u>	<u>102,071</u>	<u>106,013</u>
CURRENT ASSETS					
Trade and other receivables	14	1,711	2,945	1,982	3,574
Current asset investments		-	-	-	-
Cash at bank and in hand		8,084	8,352	7,594	7,548
		<u>9,795</u>	<u>11,297</u>	<u>9,576</u>	<u>11,122</u>
CREDITORS: amounts falling due within one year	15	<u>(38,273)</u>	<u>(7,262)</u>	<u>(38,054)</u>	<u>(7,087)</u>
NET CURRENT ASSETS / (LIABILITIES)		<u>(28,478)</u>	<u>4,035</u>	<u>(28,478)</u>	<u>4,035</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>73,593</u>	<u>110,048</u>	<u>73,593</u>	<u>110,048</u>
CREDITORS :amounts falling due after more than one year	16	<u>(8,889)</u>	<u>(41,393)</u>	<u>(8,889)</u>	<u>(41,393)</u>
PROVISIONS FOR LIABILITIES AND CHARGES	17	<u>(9,216)</u>	<u>(15,471)</u>	<u>(9,216)</u>	<u>(15,471)</u>
NET ASSETS		<u>55,488</u>	<u>53,184</u>	<u>55,488</u>	<u>53,184</u>
RESTRICTED RESERVES					
Income & expenditure reserve – endowment reserve	18	565	491	565	491
UNRESTRICTED RESERVES					
Income & expenditure reserve – unrestricted		23,791	21,561	23,791	21,561
Revaluation reserve	19	31,132	31,132	31,132	31,132
TOTAL RESERVES		<u>55,488</u>	<u>53,184</u>	<u>55,488</u>	<u>53,184</u>

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

The financial statements on pages 18 to 39 were approved by the University Court on 5 December 2018 and signed on its behalf by:

Dr Frances Dow, CBE
Chair

Professor Petra Wend
Principal and Vice-Chancellor

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 July 2018

	Note	2017/18 £000	(as restated) 2016/17 £000
Cash inflow from operating activities			
Surplus / (deficit) for the year		(5,373)	(773)
Adjustments for non-cash items			
Depreciation	12	5,175	4,950
Deferred capital grants released		(588)	(468)
Pension costs less contributions payable		1,629	1,455
(Increase) / decrease in operating debtors		1,234	(1,323)
Increase / (decrease) in operating creditors		398	(526)
Increase / (decrease) in pension provision		(207)	(164)
Adjustments for investing or financing activities			
Investment income and interest receivable		(27)	(13)
Interest payable		1,303	1,385
		<hr/>	<hr/>
Net cash inflow / (outflow) from operating activities		3,544	4,523
Cash flows from investing activities			
Proceeds from sale of endowment assets		-	176
Investment income		27	17
Payments made to acquire fixed assets		(1,233)	(1,393)
Payments made to acquire endowment assets		-	(30)
		<hr/>	<hr/>
		(1,206)	(1,230)
Cash flows from financing activities			
Interest paid		(1,303)	(1,385)
Repayments of amounts borrowed		(1,492)	(1,492)
New unsecured loans in year		189	-
		<hr/>	<hr/>
		(2,606)	(2,877)
Increase / (decrease) in cash and cash equivalents in the year			
		<hr/> (268)	<hr/> 416
Cash and cash equivalents at beginning of the year		8,352	7,936
Cash and cash equivalents at end of the year		8,084	8,352
		<hr/>	<hr/>
		(268)	416

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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

(A) Basis of preparation

The financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2015 ("SORP 2015") and in accordance with Financial Reporting Standard (FRS) 102 and with the Accounts Direction issued by the Scottish Funding Council.

The University is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings. The financial statements have been prepared on a going concern basis. Additional commentary on the process, which the Court has undertaken in arriving at the view that the accounts should be prepared on a going concern basis, is set out in the Strategic Report, under the section on Management of principal risks and uncertainties. The accounting policies have been applied consistently throughout the year. The functional currency of the University is pounds sterling, and the financial statements have been prepared to round £000s.

(B) Basis of consolidation

The consolidated financial statements include the University and its subsidiary undertaking for the financial year ended 31 July 2018. 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' Superannuation Scheme (STSS) and the Universities Superannuation Scheme (USS). All three are defined benefit schemes.

Local Government Pension Fund

The Lothian Pension Fund is a funded multi-employer defined benefit scheme, with the assets held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The University recognises a liability for its share of obligations under the scheme net of its share of plan assets. This net defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in current and prior periods, discounted to determine its present value, less the fair value (at bid price) of plan assets. The fund is valued every three years by professionally qualified independent actuaries using the projected unit method. Where the calculation results in a net asset, recognition of the asset is limited to the extent to which the University is able to recover its share of the surplus, either through reduced contributions in the future or through refunds from the plan.

Scottish Teachers' Superannuation Scheme

The STSS is an unfunded multi-employer defined benefit scheme. Contributions are credited to the Exchequer, and the Exchequer effectively meets the costs of all benefits. The financing of the scheme is based on the standard methodology for unfunded public service pension schemes known as Superannuation Contributions Adjusted for Past Experience (SCAPE). Under SCAPE, an account is maintained ("the Account"), to which contributions from members and employers are credited and from which expenditure on benefits (including pension increases under the Pensions (Increase) Acts) is debited. The Account is also credited with interest at the long-term rate determined by HM Treasury from time to time, after taking advice from the Government Actuary. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has accounted for its contributions as if it were a defined contribution scheme. The University has no obligation for other employers' obligations to the multi-employer scheme.

Universities' Superannuation Scheme

The Universities Superannuation Scheme is a hybrid 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.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

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

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

(G) **Foreign currency translations**

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

(H) **Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Certain items of fixed assets which had been revalued to fair value on or prior to the date of transition to SORP 2015 are held on a basis of fair value cost, being the revalued amount at the date of that valuation.

Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

Land and Buildings are stated at cost or valuation. Land and Buildings are externally valued every five years. The basis of valuation is depreciated replacement cost. In the period between external valuations the University Court reviews the value of the assets. Where the value of the Land and Buildings is considered to be below cost, either by external valuation or as a result of the Court's review, and this is considered to be a permanent diminution in value, the difference is charged to the income & expenditure account as an impairment charge. The most recent external valuation of the main campus was carried out at 31 July 2018 by Gerald Eve, Chartered Surveyors.

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

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

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

(I) **Investments**

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

(J) **Cash and cash equivalents**

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

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

(K) Provisions, contingent liabilities and contingent assets

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

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

A contingent asset arises where an event has taken place which entitles the University to a possible asset, the existence of which will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed by way of a note.

(L) Taxation

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

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

(M) Reserves

Reserves are classified as either restricted or unrestricted. Restricted endowment reserves include balances which, through endowment to the University, are held as a permanently restricted fund which the University must hold in perpetuity. Other restricted reserves include balances where the donor has designated a specific purpose and therefore the University is restricted in the purposes for which it may use these funds. The policy is to revalue the academic estate every 5 years, and any surplus arising is added to the revaluation reserve. A revaluation was carried out in 2017/18.

(N) Judgements and key sources of estimation uncertainty

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

Pension and other post-employment benefits

The cost of defined benefit pension plans and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Further details are given in note 20 to the financial statements.

Valuation of land and buildings

The part of the University campus comprising the academic buildings was revalued at 31 July 2018 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 £23.869 million, which has been reflected in the financial statements as prior year adjustments to reflect the timing of the gain. Management has considered the basis used to undertake the valuation and has satisfied itself that the basis, and the resulting valuation, are reasonable.

NOTES TO THE FINANCIAL STATEMENTS

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

	2017/18	2016/17
	£000	£000
Scottish higher education students	5,892	5,208
Rest of UK students	1,221	1,402
European Union (excluding UK) students	2,111	2,192
Non-European Union students	2,232	2,485
Other fees and discounts	(301)	(82)
Education contracts	1,756	1,680
	12,911	12,885

2. SCOTTISH FUNDING COUNCIL GRANTS (consolidated and university)

	2017/18	2016/17
	£000	£000
Recurrent grant		
Teaching	12,080	12,142
Research	1,109	951
Specific grants		
Wider access retention premium	586	586
Regional Coherence - Academies programme	81	-
Disabled student premium	54	54
Knowledge exchange / University innovation fund	350	350
Scottish Drama Training Network	148	148
Capital maintenance grant released	297	982
Other miscellaneous grants	133	-
Deferred capital grants released (note 16)		
Land & buildings	588	468
Equipment	-	-
	15,426	15,681

3. RESEARCH GRANTS & CONTRACTS

	Consolidated		University	
	2017/18	2016/17	2017/18	2016/17
	£000	£000	£000	£000
Research councils	271	158	271	158
UK based charities	212	212	202	176
UK government and health authorities	1,270	927	1,256	919
UK private sector	20	64	7	41
European funding	-	-	-	-
Other grants & contracts	181	240	181	238
	1,954	1,601	1,917	1,532

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. OTHER OPERATING INCOME

	Consolidated		University	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
Residences, catering and conferences	5,033	4,844	4,784	4,620
Other services rendered	611	999	397	829
Sports centre income	234	235	234	235
Released from deferred capital grants (note 16)	-	-	-	-
Other income	599	2,699	843	2,880
	6,477	8,777	6,258	8,564

5. INVESTMENT INCOME

	Consolidated		University	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
Investment income on endowments	-	2	-	2
Other investment income	27	11	26	11
Net return on pension scheme	-	-	-	-
	27	13	26	13

6. DONATIONS AND ENDOWMENTS (consolidated and university)

	2017/18 £000	2016/17 £000
New endowments	-	-
Unrestricted donations	239	195
	239	195

7. STAFF COSTS

	Consolidated		University	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
Staff costs				
Wages and salaries	18,046	17,779	17,925	17,669
Social security costs	1,799	1,774	1,795	1,773
Movement on USS provision	3	1	3	1
Other pension costs	4,193	3,869	4,190	3,869
	24,041	23,423	23,913	23,312

NOTES TO THE FINANCIAL STATEMENTS (continued)

Emoluments of the Principal and Vice-Chancellor

(who was also the highest paid Member of the University Court)

	2017/18 £000	2016/17 £000
Professor Petra Wend		
Salary	210	210
Employers' pension contributions	-	27
In lieu of employers' pension contribution	32	8
Benefits in kind	2	2
	244	247

There are no pension contributions for Professor Wend. The Principal opted out of the pension scheme in the previous year. Additional payments equivalent to pensions contributions foregone are included within emoluments. The head of the University's basic salary is 5.25 times the median pay of staff, 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 Executive Board. The total compensation for the year ended 31 July 2018 (including any employers' pension contributions) was £915,390 (year ended 31 July 2017, £888,000).

University Court members

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

	2017/18 £000	2016/17 £000
Directors' emoluments (including pension contributions)		
Fees for services as members of University Court	-	-
Emoluments (i.e. salaries as members of staff)	459	463
Contributions paid to pension schemes	38	69
Benefits in kind	2	3
	499	535

These figures relate to 6 members of staff (2016/17: 8), including the Principal.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	2017/18 Number	2016/17 Number
Senior postholders		
£100,001 to £110,000	1	1
£110,001 to £120,000	1	1
£210,001 to £220,000	-	1
£240,001 to £250,000	1	-
	2017/18 £000	2016/17 £000
Compensation for loss of office		
Compensation payable in respect of senior post holders	-	-

	2017/18 FTE number	2016/17 FTE number
Average full time equivalent staff numbers by major category: (consolidated and university)		
Academic schools	195	194
Academic services	48	55
Research grants & contracts	36	30
Residences, catering & conferences	26	29
Premises	23	22
Administration & central services	113	111
	441	441

8. INTEREST PAYABLE AND OTHER FINANCE COSTS

	Consolidated		University	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
Loan interest	1,303	1,385	1,303	1,385
Finance lease interest	-	-	-	-
Net charge on pension scheme	338	335	338	335
	1,641	1,720	1,641	1,720

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. ANALYSIS OF TOTAL EXPENDITURE BY ACTIVITY

	Consolidated		University	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
Academic schools	13,579	12,732	13,579	12,732
Academic services	5,162	4,864	5,162	4,864
Research grants & contracts	1,712	1,480	1,672	1,455
Other services rendered	464	711	307	551
Residences, catering and conferences	2,961	2,705	2,904	2,626
Premises	7,574	7,118	7,574	7,118
Administration & central services	8,457	7,437	8,454	7,429
Other expenses	2,498	2,878	2,498	2,878
Total per income and expenditure account	42,407	39,925	42,150	39,643

10. TAXATION (consolidated and university)

	2017/18 £000	2016/17 £000
UK Corporation Tax payable	-	-
	<u>-</u>	<u>-</u>
	<u><u>-</u></u>	<u><u>-</u></u>

11. OTHER OPERATING EXPENSES

	Consolidated		University	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
External auditors – audit fees	50	49	47	43
External auditors – non-audit fees	48	6	48	6
Internal audit	27	25	27	25
Grants to QMU Students Union	240	242	240	242
Other expenses	11,185	9,510	11,059	9,345
	11,550	9,832	11,421	9,661

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. TANGIBLE ASSETS

Consolidated and University

	Freehold land & buildings	Fixtures, fittings & equipment		TOTAL
	Owned	Owned	Held under finance leases	
	£000	£000	£000	£000
Cost or valuation:				
At 1 August 2017 (as restated)	107,486	8,608	1,271	117,365
Disposals at cost	-	-	-	-
Additions at cost	-	1,233	-	1,233
At 31 July 2018	107,486	9,841	1,271	118,598
Depreciation:				
At 1 August 2017	2,089	8,045	1,218	11,352
Written off on disposals	-	-	-	-
Written back due to revaluation	-	-	-	-
Provided during the year	4,616	533	26	5,175
At 31 July 2018	6,705	8,578	1,244	16,527
Net book amount at 31 July 2018	100,781	1,263	27	102,071
Net book amount at 1 August 2017	105,397	563	53	106,013
Analysis of net book amount at 31 July 2018				
Financed by capital grant	8,795	-	-	8,795
Other	91,986	1,263	27	93,276
	100,781	1,263	27	102,071

The valuation of the Craighall campus was carried out at 31 July 2018 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 revaluation occurs every five years. The revaluation has been reflected in the financial statements as prior year adjustments reflecting the timing of the valuation movement.

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 (continued)

13. INVESTMENTS

Subsidiary Undertaking

Name of undertaking	Country of incorporation and registration	Description of shares held	Proportion of nominal value of shares held	Cost at 1 August 2017 and 31 July 2018
			%	£
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

	Consolidated		University	
	2018	2017	2018	2017
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	1,040	1,996	905	1,942
Prepayments and accrued income	671	949	671	928
Amounts due from subsidiaries	-	-	406	704
	1,711	2,945	1,982	3,574

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Consolidated		University	
	2018	2017	2018	2017
	£000	£000	£000	£000
Secured loans (see note 16)	32,070	1,492	32,070	1,492
Trade creditors	2,070	861	2,015	925
Social security and other taxation payable	552	519	512	487
Accruals and deferred income	3,546	4,346	3,422	4,139
Unsecured loans	35	-	35	-
Finance lease commitments due within one year	-	44	-	44
	38,273	7,262	38,054	7,087

The secured long-term loan facility with Barclays Bank plc is £32.1 million, and has a final maturity date of 17 December 2024. As a result of the anticipated covenant breach, which has subsequently been waived by Barclays Bank plc, the full amount of the outstanding loan is included within *Creditors: amounts falling due within one year* in line with FRS 102. The loan is secured over the campus site at Musselburgh. The University has entered into a fixed-rate arrangement in order to protect itself against any significant fluctuations in interest rates. The terms of this arrangement are commercially confidential.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Consolidated and University	
	2018 £000	2017 £000
Secured loans (see note 15)	-	32,070
Unsecured loans	154	-
Deferred capital grants	8,735	9,323
	8,889	41,393
Analysis of secured loans:-		
Due between one and two years	-	1,492
Due between two and five years	-	4,475
Due in five years or more	-	26,103
Total due after more than one year	-	32,070
Due within one year (note 15)	-	1,492
Total secured loans	-	33,562
Analysis of unsecured loans:-		
Due between one and two years	35	-
Due between two and five years	86	-
Due in five years or more	33	-
Total due after more than one year	154	-
Due within one year (note 15)	35	-
Total unsecured loans	189	-

Analysis of deferred capital grants

	Consolidated and University	
	2018 £000	2017 £000
Opening balance : buildings	9,323	9,791
Opening balance : equipment	-	-
	9,323	9,791
Receivable : buildings	-	-
Receivable : equipment	-	-
Release : buildings	588	468
Release : equipment	-	-
	588	468
Closing balance : buildings	8,735	9,323
Closing balance : equipment	-	-
	8,735	9,323

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. PROVISIONS FOR LIABILITIES

Consolidated and University Pensions £000	Obligation to fund deficit on USS Pension £000	Pension enhancements £000	Defined Benefit Obligations LGPS £000	Total Pensions Provisions £000
At 1 August 2017	369	3,231	11,871	15,471
Utilised in year	(31)	(227)	-	(258)
Transfer (to)/from income & expenditure account	34	17	(6,048)	(5,997)
At 31 July 2018	372	3,021	5,823	9,216

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 2018, on the basis of valuation prescribed by FRS 102, and using the same set of assumptions as are set out in note 20 in relation to the valuation of the Local Government Pension Scheme.

The University also has a liability to fund the past deficit on the Universities Superannuation Scheme (USS). This obligation arises from the contractual obligation with the pension scheme for total payments relating to benefits arising from past performance. Management has assessed future employees within the USS scheme and salary payments over the period of the contractual obligation in assessing the value of this provision.

18. ENDOWMENT RESERVES

	Consolidated and University				Total £000
	Unrestricted £000	Restricted Expendable £000	Restricted Permanent £000	Restricted Total £000	
Balance at 1 August 2017	-	445	46	491	491
Income for year	-	238	1	239	239
Expenditure for year	-	(165)	-	(165)	(165)
At 31 July 2018	-	518	47	565	565
Represented by:					
Capital value	-	-	35	35	35
Accumulated income	-	518	12	530	530
	-	518	47	565	565

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. REVALUATION RESERVE

	Consolidated and University	
	2018	2017
	£000	£000
At 1 August	31,132	7,399
Prior period adjustment to recognise revaluation gains attributable to prior years	-	18,532
Adjusted at 1 August	<u>31,132</u>	<u>25,931</u>
Prior period adjustment to recognise revaluation gains attributable to 2016/2017	-	5,337
Release to general reserve	-	(136)
At 31 July	<u>31,132</u>	<u>31,132</u>

20. PENSIONS AND SIMILAR OBLIGATIONS

The University's employees belong to three principal pension schemes, the Scottish Teachers Superannuation Scheme (STSS), the Local Government Pension Scheme (LGPS) and the Universities Superannuation Scheme (USS). The total pension cost for the year was £4,196,000 (2016/17: £3,870,000).

	Consolidated and University	
	Year ended 31 July 2018	Year ended 31 July 2017
	£000	£000
<i>The total pension charge is analysed as follows:-</i>		
Lothian Pension Fund (LGPS)	2,493	2,184
Scottish Teachers Superannuation Scheme	1,437	1,453
Universities Superannuation Scheme	266	233
	<u>4,196</u>	<u>3,870</u>

Estimated employers' pension contributions for the year to 31 July 2019 are £3,400,000.

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 2018 by a qualified independent actuary, Hymans Robertson LLP.

Assumptions at	31 July 2018	31 July 2017	31 July 2016
Pension increase rate	2.4%	2.5%	1.9%
Salary increase rate	4.1%	4.5%	4.4%
Discount rate	2.8%	2.7%	2.4%

The fund is valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the scheme actuary reviews the progress of the scheme. The actuary has indicated that the resources of the scheme are likely, in the normal course of events, to be sufficient to meet the liabilities as they fall due at the level specified by the scheme regulations. The currently agreed employer's contribution rate for the University is 19.0%. This is due to increase to 19.5% from 1 April 2019 and to 20.0% from 1 April 2020.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. PENSIONS AND SIMILAR OBLIGATIONS (continued)

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

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

	31 July 2018 No. of years	31 July 2017 No. of years
<i>Current pensioners</i>		
Males	21.7	22.1
Females	24.3	23.7
<i>Future pensioners</i>		
Males	24.7	24.2
Females	27.5	26.3

Analysis of the amount shown in the balance sheet

	Value at 31 July 2018 £000	Value at 31 July 2017 £000	Value at 31 July 2016 £000	Value at 31 July 2015 £000	Value at 31 July 2014 £000
Estimated employer assets (A)	57,343	57,322	50,644	40,901	36,535
Present value of scheme liabilities	(62,495)	(68,492)	(63,303)	(50,918)	(46,362)
Present value of unfunded liabilities	(671)	(701)	(769)	(804)	(776)
Total value of liabilities (B)	(63,166)	(69,193)	(64,072)	(51,722)	(47,138)
Net pension liability (A) – (B)	(5,823)	(11,871)	(13,428)	(10,821)	(10,603)

Analysis of movements in the present value of the scheme liabilities

	31 July 2018 £000	31 July 2017 £000
Opening defined benefit obligation	69,193	64,072
Current service cost	2,580	2,394
Interest cost	1,891	1,556
Contributions by members	424	430
Actuarial losses	(9,683)	1,921
Past service costs	-	-
Unfunded benefits paid	(48)	(46)
Benefits paid	(1,191)	(1,134)
Closing defined benefit obligation	63,166	69,193

Analysis of movement in the market value of the scheme assets

	31 July 2018 £000	31 July 2017 £000
Opening fair value of employer assets	57,322	50,644
Expected return on assets	(2,006)	4,932
Contributions by members	424	430
Contributions by employer	1,241	1,229
Contributions in respect of unfunded benefits	48	46
Actuarial (losses)/gains	1,553	1,221
Unfunded benefits paid	(48)	(46)
Benefits paid	(1,191)	(1,134)
Closing fair value of employer assets	57,343	57,322

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. PENSIONS AND SIMILAR OBLIGATIONS (continued)

B) Scottish Teachers' Superannuation Scheme (STSS)

The STSS is an unfunded multi-employer defined benefit scheme. The Scheme is financed by contributions from employers and current members of the Scheme. The contributions paid to the Scheme fall into general government revenues. There is no actual fund of assets but an account is maintained of a notional fund made up of contributions paid by employers and members, supplemented by a return on the notional fund at a pre-determined rate and reduced by benefits as and when they are paid to retired and former members of the Scheme. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has accounted for its contributions as if it were a defined contribution scheme. The University has no obligation for other employers' obligations to the multi-employer scheme.

The last audited full actuarial and funding valuation of the scheme was carried out at 31 March 2012. This valuation used the Projected Unit Methodology. With effect from 1 September 2015, the employer contribution rate has been set at 17.2%. Employee contributions are dependent upon the member's salary bracket. The notional fund at 31 March 2012 amounted to £19.6 billion, and total Scheme liabilities for service amounted to £20.9 billion, giving a notional past service deficit of £1.3 billion. The next valuation will be based on scheme data as at 31 March 2016, and any changes arising from that valuation will be applied from 1 April 2019.

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 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.

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 currently recognises a provision for its obligation to fund past deficits arising within the Universities Superannuation Scheme (USS). The recovery plan in the 2014 actuarial valuation requires employers to contribute 2.1% of salaries towards repairing the deficit over a period of 17 years, of which 14 years remain. Details of this provision, which has been discounted at a rate of 2.64% as at 31 July 2018, are included in note 7 to the financial statements.

The 2017 actuarial valuation of USS has been undertaken but this has not yet been formally completed. The 2017 valuation has set out the challenges currently facing the scheme and the likelihood of significant increases in contributions being required to address these challenges. In the judgement of the University, as the 2017 valuation has not formally completed, and there remain various stages of consultation around the key factors specifically relating to the funding of the past deficit, including the level of contributions required, the period of the recovery plan and the level of asset performance over the period, it remains appropriate to continue to account for the past deficit obligation in accordance with the plan agreed after the 2014 actuarial valuation. There is a risk that the year-end provision as calculated will not reflect the position following the final outcome of negotiations, depending upon what is finally agreed as regards future deficit contributions and their duration. The University expects to have greater clarity in this respect during the next financial year.

The latest available complete actuarial valuation of the Retirement Income Builder section of scheme was at 31 March 2014 ("the valuation date"), which was carried out using the projected unit method. 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 2014 valuation was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. The assets therefore were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future increases in earnings. These figures will be revised once the 2017 Scheme Valuation is complete.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. PENSIONS AND SIMILAR OBLIGATIONS (continued)

C) Universities Superannuation Scheme (USS) (continued)

Defined benefit liability numbers for the scheme, for accounting purposes, have been produced using the following assumptions:

	2018	2017
Discount rate	2.64%	2.57%
Pensionable salary growth	N/A	N/A
Pension increases (CPI)	2.02%	2.41%

The main demographic assumption used relates to the mortality assumptions. The mortality assumptions used in these figures are as follows:-

	2018	2017
Mortality base table	<p>Pre-retirement: 71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females.</p> <p>Post retirement: 96.5% of SAPS SINMA "light" for males and 101.3% of RFV00 for females.</p>	<p>98% of SAPS S1NA "light" YOB unadjusted for males.</p> <p>99% of SAPS S1NA "light" YOB with a -1 year adjustment for females.</p>
Future improvements to mortality	CMI 2016 with a smoothing parameter of 8.5 and a long term improvement rate of 1.8% pa for males and 1.6% pa for females.	CMI 2014 with a long term rate of 1.5% p.a.

The current life expectancies on retirement at age 65 are:

	2018	2017
Males currently aged 65 (years)	24.5	24.4
Females currently aged 65 (years)	26.0	26.6
Males currently aged 45 (years)	26.5	26.5
Females currently aged 45 (years)	27.8	29

Existing benefits

	2018	2017
Scheme assets	£63.6 billion	£60.0 billion
Total scheme liabilities	£72.0 billion	£77.5 billion
FRS 102 total scheme deficit	£8.4 billion	£17.5 billion
FRS17 funding level	88%	77%

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 2018 on the basis of valuation prescribed by FRS 102. The total provision in respect of this liability is £3.021 million (2017: £3.231 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. 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.

22. HARDSHIP AND CHILDCARE FUNDS

	2017/18 £000	2016/17 £000
HARDSHIP FUND (undergraduate and postgraduate)		
Balance at 1 August	-	-
Amounts received from Student Awards Agency for Scotland	224	239
Amount vired (to)/from Childcare Fund	16	46
	<hr/>	<hr/>
	240	285
Disbursed to students	(242)	(242)
Other costs	(6)	(36)
Refunded to Student Awards Agency for Scotland	8	(7)
	<hr/>	<hr/>
Balance unspent at 31 July	-	-
CHILDCARE FUND		
Balance at 1 August	-	-
Amounts received from Student Awards Agency for Scotland	138	137
	<hr/>	<hr/>
	138	137
Disbursed to students	(111)	(77)
Amount vired (to)/from Hardship Fund	(16)	(46)
Refunded to Student Awards Agency for Scotland	(11)	(14)
	<hr/>	<hr/>
Balance unspent at 31 July	-	-

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



Queen Margaret University

EDINBURGH

Queen Margaret University, Edinburgh, EH21 6UU.

T: 0131 474 0000 F: 0131 474 0001 E: marketing@qmu.ac.uk W: www.qmu.ac.uk