



THE QUEEN'S
ANNIVERSARY PRIZES
2002



Queen Margaret University College
EDINBURGH

**STATEMENT OF ACCOUNTS
2003**

**FOR THE YEAR ENDED 31ST JULY 2003
REGISTERED No. 7335**



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REPORT OF THE GOVERNING BODY ON THE FINANCIAL STATEMENTS

The Governing Body presents its report and the audited financial statements for the year ended 31 July 2003. The results for the year show an historical cost operating surplus of £609,000.

There was a significant growth of 6.4% over the previous year in the University College operations, which was due to the efforts of the University College staff, in particular in achieving increased fee income from the non government funded student areas. This has been achieved during a year of significant change for the University College, with the appointment of a new Principal and the completion of a restructure of its academic areas to a two faculty structure with associated schools. Overall expenditure has increased at broadly the same level as income, with increases in staff costs due to national pay awards and increases in employers' National Insurance and superannuation contributions having been managed within the overall resource base. The resultant surplus of £609,000 is slightly ahead of the budgeted level, and equates to 2.6% of turnover.

Results for the Year

The University College's consolidated income, expenditure and results for the year to 31 July 2003 are summarised as follows:-

	2002/03 £000	2001/02 £000
Income	23,626	22,205
Expenditure on operating activities	(23,395)	(21,983)
Surplus after depreciation of assets at valuation	<u>231</u>	<u>222</u>
Difference between historical cost depreciation charge and the actual charge for the year calculated on the revalued amount	378	378
Historical cost surplus	<u>609</u>	<u>600</u>

Future Developments

The University College plans to continue to grow both in respect of its student numbers and the expansion of its research and commercialisation activities. However, the University College's future plans are affected significantly by the Government's policy of consolidation of undergraduate student numbers in Higher Education. In the short to medium term, developments are planned to take place in areas independent of Government funding, including postgraduate, part-time and international students, research and consultancy. In addition, the University College will continue to develop the quality of the services it provides.

The University College undertook a full options appraisal of its estate in 1998, which concluded that the best value for money would be achieved through relocation to a new campus. Following a comprehensive search of possible sites, missives were entered into in November 2002 for the purchase of a 35 acre site at Old Craighall in East Lothian. A project team has been appointed to progress the relocation project, and the relocation of the current Corstorphine and Leith campuses to the site at Old Craighall is expected to take place approximately two years after planning permission with a target date for relocation of 2007.

Prior to the move to the new campus, the University College will require to incur significant costs on ensuring that its existing estate continues to comply with legislative requirements, particularly those relating to disability discrimination. In order to achieve the maximum return on these costs given the planned campus relocation, the programme will be accelerated, and significant additional costs will therefore be incurred over the next two years. The underlying operating activities for the University College are expected to continue to generate a surplus; however these exceptional estates costs will mean that the University College will be budgeting for an overall deficit position including exceptional estates costs in each of the next two financial years.



REPORT OF THE GOVERNING BODY ON THE FINANCIAL STATEMENTS (CONTINUED)

Status

Queen Margaret University College is an autonomous Scottish university-sector institution of Higher Education, and is registered under the Companies Act 1985 as a company limited by guarantee.

Principal Activities

The University College mission is to enhance the quality of life and serve communities through excellence and leadership in vocationally and professionally relevant education, research and consultancy, as a university which is outward looking and committed to innovation, participation and lifelong learning.

Scope of the Financial Statements

The financial statements presented on pages 13 to 36 comprise the consolidated results of the University College and its three subsidiary companies, QMC Enterprises Ltd, QMC Properties Ltd and Bactokil Ltd. These statements have been prepared in accordance with the Statement of Recommended Practice (SORP) – Accounting for Further and Higher Education, and with the United Kingdom Companies Acts.

Subsidiary Companies

The University College has three subsidiary companies, which are focussed on the following activities:- QMC Enterprises Ltd 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 services (as opposed to performing research) for a variety of commercial and other organisations. QMC Properties Ltd deals with the acquisition, refurbishment and leasing of properties for use by the University College. Bactokil Ltd was set up to undertake the commercial development of an antimicrobial agent. All subsidiary companies transfer the whole of any taxable profits to the University College under deed of covenant and Gift Aid arrangements.

Social Inclusion

Queen Margaret University College embraces a commitment to offering higher education to a diverse student body. Student recruitment is enhanced through a number of widening participation initiatives as well as the good links with our local Further Education Colleges. QMUC currently holds the chair and staffing for the South East Scotland Wider Access Regional Forum funded by SHEFC.

Graduates into Employment

Many of our educational programmes are vocationally oriented and those that are less professionally specific incorporate an emphasis upon transferable skills. Both these features contribute to QMUC demonstrating a successful graduate employment rate, whereby within six months of receiving their award, 96% of our students have either gained a post in their chosen profession or continued with further study. This figure places QMUC amongst the top universities in Scotland for graduate employment.

Employment of Disabled Persons

The University College'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 appropriate training.

Creditors Payment Policy

Unless special terms are agreed, it is the University College'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 College endeavours to include and abide by specific payment terms. At 31 July 2003, trade creditors represented 30 days of relevant expenditure (2002: 37 days).

Employee Involvement

The University College 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, and through regular communication from the Principal. The University College operates career review and staff development schemes for both academic and support staff. In 2002/03, the University College allocated £256,000 (2001/02: £267,000) in support of staff and research students undertaking research projects, and a further £109,000 (2001/02: £99,000) to assist staff with further study and attendance at conferences and courses.



REPORT OF THE GOVERNING BODY ON THE FINANCIAL STATEMENTS (continued)

Preparations for European Monetary Union

The University College is monitoring developments regarding European monetary union. Costs incurred by the University College to date in this respect are immaterial.

Directors' and Officers' Liability Insurance

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

Members' Liability

The liability of each member of the University College upon winding up of the Company is limited to 50p. The number of members at 31 July 2003 was 146 (2002: 145). Distributions to members are not permitted by the Memorandum and Articles of Association of the Company.

Pension Arrangements

The University College is involved in four pension schemes, as stated in note 29 of the attached financial statements, and the overall deficit or surplus position for each of these funds is as indicated.

For the Local Government Pension Scheme the deficit in relation to the University College's potential liability as calculated at July 2003 is significant. However it must be emphasised that this pension fund is a long term investment and the position as stated in the accounts reflects only a snapshot view of the actuary for the fund as at 31 July 2003. In addition the University College is only one of many contributors to this scheme which is controlled by the Lothian Pension Fund. It is the intention of the Lothian Pension Fund to raise contributions between now and 2006 to recover this deficit position. The position beyond 2006 will then be reviewed based on the revised valuation at that time.

For the Scottish Teachers Superannuation Scheme further information is being sought from the scheme in relation to an updated valuation report which has not yet been published.

Conclusion

In common with other universities, QMUC has to manage its activities whilst facing funding pressures as a result of Higher Education grant income failing to keep pace with inflation and pay awards over the last ten years. The University College has however managed to maintain a healthy surplus position and remains in a position of financial strength. Significant expenditure will require to be undertaken on the existing estate to meet legislative requirements prior to the move to the new campus in 2007, and whilst the ongoing operations of the University College are expected to continue to produce a surplus the overall results for the institution are likely to show a deficit position for the next two years due to these exceptional estates costs. Once this exceptional estates remedial programme is completed, the institution plans to return to an overall surplus position in 2005/06. In addition, plans are in place to meet the identified financial challenges required to enable the University College to achieve the objectives set out in its Strategic Plan.

On behalf of the Governing Body

Professor Sir John Ward, CBE
Chairman

10 December 2003



MEMBERSHIP OF THE GOVERNING BODY

Professor Sir John Ward, CBE	N R	Chairman
Morag Alexander, OBE	A	
Scott Allan	E	
James Bain		Staff Governor, appointed 7 October 2002
Fiona Ballantyne	E N R	Vice Chairman from 1 January 2003
Tom Band	N	Retired 30 September 2002
Jeffrey Beckett		Student Governor, appointed 1 June 2003
Faye Benning		Student Governor, retired 31 May 2003
Professor Sally Brown, OBE	E	
Graham Buckley		Appointed 7 October 2002
Ian Buick	E	Staff Governor
Marcia Campbell	F R	Appointed 7 October 2002
Professor Anthony Cohen	E F N	Principal and Vice-Patron, appointed 1 March 2003
Dr Marie Donaghy		Appointed by Academic Council, appointed 1 June 2003
Dr Derek Doyle, OBE	A E N R	Vice Chairman, retired 31 December 2002
Vikram Lall	F R	Appointed 7 October 2002
Councillor Elizabeth Maginnis		
Rosalyn Marshall	E F	Vice Principal (Strategic Corporate Services)
Dr Harold Mills, CB	A	
John Newall	E	
Lady Ann Paton		
Dr Andrew Payne		Appointed by Academic Council, retired 30 April 2003
Chris Raftery	E	Student President, retired 30 May 2003
Professor Joan Stringer, CBE	E N R	Principal and Vice-Patron, retired 31 December 2002
Tom Ward	A	
Douglas Watters	E	Student President, appointed 1 June 2003

A - Member of Audit Committee
 E - Member of Estates Committee
 F - Member of Finance Committee
 N - Member of Nominations Committee
 R - Member of Senior Management Remuneration Committee



CORPORATE GOVERNANCE STATEMENT

Summary of the University College's Structure of Corporate Governance

The University College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the University College has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998. This incorporated internal control guidance for directors on the Combined Code as amended by the British Universities Finance Directors Group. Its purpose is to help the reader of the financial statements understand how the principles have been applied.

In the opinion of the Governors, the University College complies with the provisions of the relevant Combined Code on Corporate Governance, in so far as they apply to the Higher Education sector, and it has complied throughout the year ended 31 July 2003.

The University College's Governing Body is responsible for the University College's system of internal control, and for reviewing its effectiveness. This system relies on management informing the Governing Body of any potential internal control issues and proposing to the Governing Body 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 misstatement or loss.

A process for identifying, evaluating and managing the University College's significant risks was put in place prior to 2002/03, and this has been further developed during the year ended 31 July 2003. A Risk Management policy was approved by the Governing Body in December 2001 and a University College Risk Management Group was established in the summer of 2002. This group initially focussed on the area of Health and Safety and an associated action programme was identified and implemented. This group is now being reviewed and is being replaced by a Risk Management Sub Committee which will report to the senior management team. In addition the risk register of the University College is reviewed on an ongoing basis and reports are made thereon as appropriate to the Audit Committee and the Governing Body.

The Governing Body comprises lay and academic persons appointed under the University College's Statutory Instrument. The majority are non-executive and the roles of Chairman and Vice-Chairman of the Governing Body are separated from the role of the University College's Chief Executive, the Principal and Vice-Patron. Under the Statutory Instrument, the Governing Body delegates to the Principal the organisation, management and discipline of the University College. In discharging these functions, the Principal is subject to the general control and direction of the Governing Body but otherwise has all powers and duties of the Governing Body in relation to these functions. Under the Financial Memorandum with the Scottish Higher Education Funding Council (SHEFC), the Governing Body is responsible for the ongoing strategic direction of the University College, 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 Governing Body meets regularly, and has delegated authority to a number of Committees, including a Nominations Committee, a Senior Management Remuneration Committee, and an Audit Committee. During the financial year 2002/03 a review of the University College committees was undertaken and the previous Campus Development Committee was replaced by the Estates Committee and a new Finance Committee was created with its first meeting in June 2003. All of these Committees are formally constituted with terms of reference and comprise mainly lay members of the Governing Body, one of whom is the Chair.

The Nominations Committee considers nominations for vacancies in the Governing Body membership, and the re-appointment of existing members where appropriate.

The Senior Management Remuneration Committee determines the annual remuneration of senior staff.

The Audit Committee meets, at least three times annually, to discuss audit findings, with the University College's external and internal auditors in attendance as appropriate. The Committee considers detailed internal audit reports and recommendations for the improvement of the University College's systems of internal control, together with management's response and implementation plans. It also receives and considers reports from the Scottish Higher Education Funding Council as they affect the University College's business and monitors adherence with the regulatory requirements. It reviews the University College's annual financial statements from an audit perspective. Whilst senior executives attend meetings of the Audit Committee as necessary, they are not members of the Committee, and the Committee meets annually with the external auditors for independent discussions with no executive officers present.



CORPORATE GOVERNANCE STATEMENT (Continued)

The Estates Committee considers matters relating to the current estate and the campus relocation project, Re:Locate.

The Finance Committee of the University College inter alia recommends to the Governing Body the University College's annual revenue and capital budgets and monitors performance in relation to the approved budgets. It reviews the University College's annual financial statements in respect of their financial content.

The senior management team receives reports as appropriate regarding key performance and risk indicators, and possible control issues are brought to their attention. The senior management team and the Audit Committee also receive regular reports from the internal auditors which include recommendations for improvement. The Audit Committee's role in this area is confined to a high level review of the arrangements for internal financial control. The Governing Body receives reports as appropriate on risk and control issues from senior management and the Audit Committee.



RESPONSIBILITIES OF THE GOVERNING BODY

In accordance with the Companies Acts and the University College's Statutory Instrument, the Governing Body is responsible for ensuring that the affairs of the University College 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 Governing Body is responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the University College and enable it to ensure that the financial statements are prepared in accordance with the University College'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 Higher Education Funding Council and the Governing Body, the Governing Body, 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 College and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Governing Body 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 College will continue in operation. The Governing Body is satisfied that the University College 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 Governing Body has taken reasonable steps to:

- ensure that funds from the Scottish Higher Education 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 College and prevent and detect fraud;
- secure the economical, efficient and effective management of the University College's resources and expenditure.



RESPONSIBILITIES OF THE GOVERNING BODY (continued)

System of Internal Financial Control

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

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

The Audit Committee, on behalf of the Governing Body, has reviewed the effectiveness of the Group's system of internal financial control as part of a rolling programme. Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE GOVERNING BODY OF QUEEN MARGARET UNIVERSITY COLLEGE, EDINBURGH

We have audited the financial statements on pages 15 to 36 which have been prepared in accordance with the accounting policies set out on pages 13 and 14.

This report is made solely to the Governing Body, in accordance with the Memorandum and Articles of Association of the University College. Our audit work has been undertaken so that we might state to the Governing Body those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Governing Body, for our work, for this report, or the opinion we have formed.

Respective responsibilities of the Governing Body and Auditors

The Governing Body is responsible for preparing the financial statements. As described on page 9, this includes responsibility for preparing the financial statements in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education and applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the requirements of the Scottish Higher Education Funding Council's Code of Audit Practice and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education. We also report to you if, in our opinion, the Governing Body's report is not consistent with the financial statements, if the University College has not kept proper accounting records, if the accounting records do not agree with the financial statements or if we have not received all the information and explanations we require for our audit.

We also are required to report to you our opinion as to whether:

- funds from whatever source administered by the University College for specific purposes have, in all material respects, been properly applied to those purposes and managed in accordance with any other terms and conditions attached to them; and
- income has in all material respects, been applied in accordance with relevant legislation and with the University College's Financial Memorandum, dated 1 August 1999, with the Scottish Higher Education Funding Council.

We read the other information contained in the financial statements and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinions

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board and the Scottish Higher Education Funding Council's Code of Audit Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the University College's Governing Body in the preparation of the financial statements, and of whether the accounting policies are appropriate to the University College's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or other irregularity or error. In forming our opinions we also evaluated the overall adequacy of the presentation of information in the financial statements.



INDEPENDENT AUDITORS' REPORT (continued)

Opinions

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the University College as at 31 July 2003 and of its surplus of income over expenditure and cash flows for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- funds from whatever source administered by the University College for specific purposes have, in all material respects, been properly applied to those purposes and managed in accordance with any other terms and conditions attached to them; and
- income has, in all material respects, been applied in accordance with relevant legislation and with the University College's Financial Memorandum, dated 1 August 1999, with the Scottish Higher Education Funding Council.

KPMG LLP

KPMG LLP
10 December 2003
Chartered Accountants
Registered Auditor
20 Castle Terrace
Edinburgh
EH1 2EG



STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

(A) **Basis of Accounting**

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of endowment asset investments and land and buildings, and in accordance with both the Statement of Recommended Practice: Accounting for Further and Higher Education and applicable Accounting Standards in the United Kingdom. Compliance with the Statement of Recommended Practice: Accounting for Further and Higher Education requires a departure from the requirements of the United Kingdom Companies Act 1985 relating to the disclosure of endowment asset investments; an explanation of this departure is given in (E) below.

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

(B) **Basis of Consolidation**

The consolidated financial statements consolidate the financial statements of the University College and its subsidiary undertakings for the financial year ended 31 July 2003.

They do not include those of the Queen Margaret University College Students' Association both on grounds of materiality and the fact that it is a separate company limited by guarantee in which the University College has no financial interest and no control or significant influence over policy decisions.

(C) **Fixed Assets**

Land and Buildings are stated at cost or valuation. The basis of valuation is depreciated replacement cost. In accordance with the requirements of Financial Reporting Standard 15 (Tangible Fixed Assets), the University College has elected not to adopt a policy of revaluation but to retain the book amounts which reflect previous valuations (subject to the requirement to test the assets for impairment in accordance with Financial Reporting Standard 11 (Impairment of Fixed Assets and Goodwill)). Buildings are depreciated over their expected useful lives of 50 years. No depreciation is charged on the assets in course of construction.

Equipment, including micro-computers 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 over four years, being its expected useful life.

(D) **Recognition of Income**

Income from research grants and contracts is included to the extent of the completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contributions towards overhead costs.

Grants for recurrent expenditure are credited to income in the year in which they are received. Buildings and equipment acquired with the aid of specific grants are capitalised and depreciated as above. Related grants received are treated as deferred income and released to income over the expected useful life of the asset.

(E) **Investments**

Investments are included in the Balance Sheet at market value.

The Statement of Recommended Practice: Accounting for Further and Higher Education requires the presentation of endowment asset investments in the balance sheet as a separate heading between fixed and current assets. This departure from the requirements of the United Kingdom Companies Act 1985, for all investments to be classified as either fixed or current assets, is, in the opinion of the Governing Body, necessary for the financial statements to give a true and fair view in accordance with applicable accounting standards.



STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

(F) Stock

Stocks of catering and cleaning supplies are stated at the lower of cost and net realisable value.

(G) Cash Flows and Liquid Resources

Cash flows comprise increases or decreases in cash. 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 College's treasury management activities. They exclude any such assets held as endowment asset investments.

(H) Taxation

The University College has been granted charitable status by the Inland Revenue. Non-recoverable Value Added Tax arising from expenditure on non-trading activities is charged to the income and expenditure account.

(I) Pension Costs

Retirement benefits to employees of the University College 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) which are defined benefit schemes. The LGPS and the USS are externally funded and the STSS is unfunded. Contributions to the schemes are charged to the income and expenditure account so as to spread the cost of pensions over employees' working lives with the University College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. These contributions are determined by qualified actuaries.

The University College has adopted the transitional arrangements of Financial Reporting Standard 17 (Retirement Benefits).

In a number of instances the University College 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.

(J) Leasing

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



CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

For the Year Ended 31 July 2003

	Note	2002/03 £000	2001/02 £000
INCOME			
SHEFC grants	1	12,413	11,540
Tuition fees and education contracts	2	6,348	5,569
Research grants and contracts	3	1,797	1,834
Other operating income	4	2,914	3,126
Investment income and interest receivable	5	154	136
 Total income		<u>23,626</u>	<u>22,205</u>
EXPENDITURE			
Staff costs	6	15,536	14,309
Depreciation	11	1,101	977
Other operating expenses	7	6,689	6,617
Interest payable		69	80
 Total expenditure		<u>23,395</u>	<u>21,983</u>
 Surplus after depreciation of fixed assets at valuation and before tax		231	222
 Taxation	9	-	-
 Surplus on continuing operations after depreciation of fixed assets at valuation and tax		<u>231</u>	<u>222</u>

NOTE OF HISTORICAL COST SURPLUSES AND DEFICITS

For the Year Ended 31 July 2003

	Note	2002/03 £000	2001/02 £000
Surplus on continuing operations before taxation		231	222
 Difference between historical cost depreciation charge and the actual charge for the year calculated on the revalued amount	21	378	378
 Historical cost surplus before and after taxation		<u>609</u>	<u>600</u>

The consolidated income and expenditure account relates wholly to continuing operations.



STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES

For the Year Ended 31 July 2003

	Note	2002/03 £000	2001/02 £000
Surplus after depreciation of assets at valuation and tax		231	222
(Depreciation) of endowment asset investments	20	(16)	(65)
(Depreciation) of other investments	21	-	(53)
Credit on disposal of Duke Place property	21	-	16
Net endowment income/(expenditure) for year		47	(189)
New endowments		-	227
TOTAL RECOGNISED GAINS RELATING TO THE YEAR		<u>262</u>	<u>158</u>
Reconciliation			
Opening reserves and endowments		28,657	
Total recognised gains and losses for the year		262	
Closing reserves and endowments		<u>28,919</u>	



BALANCE SHEETS AS AT 31 JULY 2003

	Note	<u>Group</u>		<u>University College</u>	
		<u>2003</u> £000	<u>2002</u> £000	<u>2003</u> £000	<u>2002</u> £000
FIXED ASSETS					
Tangible assets	11	37,374	37,742	30,804	31,024
Investments	12	548	552	548	552
		<u>37,922</u>	<u>38,294</u>	<u>31,352</u>	<u>31,576</u>
ENDOWMENT ASSET INVESTMENTS	13	<u>1,142</u>	<u>1,111</u>	<u>1,142</u>	<u>1,111</u>
CURRENT ASSETS					
Stocks		38	52	38	52
Loan to subsidiary	14	-	-	2,800	2,800
Debtors	15	1,268	1,928	4,576	5,825
Cash at bank and in hand		4,431	3,418	3,942	2,273
		<u>5,737</u>	<u>5,398</u>	<u>11,356</u>	<u>10,950</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	16	<u>(3,809)</u>	<u>(4,062)</u>	<u>(3,684)</u>	<u>(3,866)</u>
NET CURRENT ASSETS		<u>1,928</u>	<u>1,336</u>	<u>7,672</u>	<u>7,084</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>40,992</u>	<u>40,741</u>	<u>40,166</u>	<u>39,771</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	17	<u>(1,244)</u>	<u>(1,350)</u>	<u>(1,244)</u>	<u>(1,350)</u>
PROVISIONS FOR LIABILITIES AND CHARGES	18	<u>(3,028)</u>	<u>(2,805)</u>	<u>(3,028)</u>	<u>(2,805)</u>
NET ASSETS		<u>36,720</u>	<u>36,586</u>	<u>35,894</u>	<u>35,616</u>



BALANCE SHEETS AS AT 31 JULY 2003

	Note	<u>Group</u>		<u>University College</u>	
		<u>2003</u> £000	<u>2002</u> £000	<u>2003</u> £000	<u>2002</u> £000
Represented by:					
DEFERRED CAPITAL GRANTS	19	7,801	7,929	7,665	7,789
ENDOWMENTS	20	1,142	1,111	1,142	1,111
RESERVES					
Revaluation reserve	21	23,167	23,545	20,401	20,748
Income and expenditure account	22	4,610	4,001	6,686	5,968
TOTAL RESERVES		<u>27,777</u>	<u>27,546</u>	<u>27,087</u>	<u>26,716</u>
TOTAL ENDOWMENTS AND RESERVES		<u>28,919</u>	<u>28,657</u>	<u>28,229</u>	<u>27,827</u>
TOTAL		<u>36,720</u>	<u>36,586</u>	<u>35,894</u>	<u>35,616</u>

The financial statements on pages 13 to 36 were approved by the Governing Body on 10 December 2003, and signed on its behalf by:

Professor Sir John Ward, CBE
(Chairman)

Professor Anthony Cohen
(Principal and Designated Officer)



CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended 31 July 2003

	Note	2002/03 £000	2001/02 £000
Net cash inflow from operating activities	24	1,621	2,621
Returns on investments and servicing of finance	25	179	(70)
Taxation		-	-
Capital expenditure and financial investment	26	(609)	56
Cash inflow before use of liquid resources and financing		<u>1,191</u>	<u>2,607</u>
Management of liquid resources		-	-
Financing	27	(94)	(83)
Increase in cash	28	<u>1,097</u>	<u>2,524</u>

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

	2002/03 £000	2001/02 £000
Increase in cash in the period	1,097	2,524
Repayment of debt	94	83
Change in net funds	<u>1,191</u>	<u>2,607</u>
Net funds/(debt) at 1 August	2,517	(90)
Net funds at 31 July	<u>3,708</u>	<u>2,517</u>



NOTES TO THE ACCOUNTS

	2002/03 £000	2001/02 £000
1. SCOTTISH HIGHER EDUCATION FUNDING COUNCIL GRANTS		
Recurrent grant		
Teaching	10,559	9,994
Research	705	509
Specific grants		
Wider access	262	226
New access partnership	17	54
Additional funded places for allied health professions	80	-
Disabled students premium	21	19
Disability legislation requirements	205	-
Knowledge transfer	86	84
Collaborative courses	-	18
Strategic change	-	88
Research development	96	110
Strategic Research Investment Fund (excluding deferred capital grants)	37	62
Improving human resources management	-	70
Science & technology teaching infrastructure grant	163	-
Other grants	-	154
Deferred capital grants released		
Buildings	142	142
Equipment	40	10
	<u>12,413</u>	<u>11,540</u>
2. TUITION FEES AND EDUCATION CONTRACTS		
UK higher education students	3,653	3,393
European Union (excluding UK) students	245	266
Non-European Union students	2,442	1,903
Other fees	8	7
	<u>6,348</u>	<u>5,569</u>
3. RESEARCH GRANTS AND CONTRACTS		
Grants	831	611
Contracts	966	1,223
	<u>1,797</u>	<u>1,834</u>
4. OTHER OPERATING INCOME		
Residences, catering and conferences	2,256	2,130
University College shop	303	330
Other services rendered	9	4
Released from deferred capital grants (note 19)	73	70
Gain on disposal of Duke Place premises	-	162
Other income	273	430
	<u>2,914</u>	<u>3,126</u>



NOTES TO THE ACCOUNTS

	2002/03 £000	2001/02 £000
5. INVESTMENT INCOME AND INTEREST RECEIVABLE		
Income from investments	29	10
Interest receivable	125	126
	<u>154</u>	<u>136</u>
6. STAFF		
Staff costs:		
Wages and salaries	13,078	12,366
Social security costs	854	800
Other pension costs	1,604	1,143
	<u>15,536</u>	<u>14,309</u>
Included within other pension costs is a charge of £358,000 (2001/02 - £80,000) for unfunded pensions (note 18 and 29).		
Average staff numbers by major category:		
Academic staff	207	205
Other staff (including staff engaged on research grants & contracts)	283	280
	<u>490</u>	<u>485</u>
	£	£
Directors' emoluments (including pension contributions)		
Fees for services as Governors	-	-
Emoluments (i.e. salaries as members of staff)	261,929	252,079
Contributions paid to pension schemes	29,208	22,976
	<u>291,137</u>	<u>275,055</u>
Emoluments of highest paid Governor -		
Salary and benefits	66,326	106,434
Pension contributions	10,557	6,906
Total	<u>76,883</u>	<u>113,340</u>
Emoluments of Principal -		
Professor Joan K Stringer (to 31 December 2002)		
Salary and benefits	49,400	106,434
Pension contributions	2,979	6,906
Total	<u>52,379</u>	<u>113,340</u>
Emoluments of Principal -		
Professor Anthony P Cohen (from 1 March 2003)		
Salary and benefits	46,009	-
Pension contributions	6,441	-
Total	<u>52,450</u>	<u>-</u>



NOTES TO THE ACCOUNTS

6. STAFF (continued)

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

	2002/03 Number	2001/02 Number
£50,001 to £55,000	2	-
£55,001 to £60,000	2	5
£60,001 to £65,000	2	-
£65,001 to £70,000	1	1
£70,001 to £75,000	1	-
£75,001 to £80,000	1	-
£85,001 to £90,000	1	-
£110,001 to £115,000	-	1

	£000	£000
7. OTHER OPERATING EXPENSES		
Residences, catering and conferences operating expenses	935	758
Consumables and laboratory expenditure	555	822
Books and periodicals	360	318
Heat, light and water	437	425
Repairs and general maintenance	733	503
Campus relocation project (revenue costs)	35	230
Grants to QMUC Students' Union	130	127
Research student grants	204	206
Rents and rates	98	43
External auditors' remuneration (of which £14,000 refers to University College)	23	23
External auditors' remuneration in respect of non-audit services	5	-
Internal auditors' remuneration	32	24
University College shop	237	284
Marketing	228	202
Postage, stationery, reprographics, telephone	495	541
Travel & subsistence and staff development	298	224
Staff recruitment	132	97
Insurance	129	97
Research grants and contracts	457	514
SHEFC special initiative grant expenditure	298	330
Other expenses	868	849
	6,689	6,617



NOTES TO THE ACCOUNTS

8. ANALYSIS OF 2002/03 EXPENDITURE BY ACTIVITY

	Staff Costs £000	Dep'n £000	Other Operating Expenses £000	Interest Payable £000	Total £000
Academic departments	8,896	139	1,005	-	10,040
Academic services	1,341	135	1,139	-	2,615
Research grants & contracts	1,057	-	457	-	1,514
Residences, catering and conferences	746	34	972	-	1,752
Premises	747	702	1,452	-	2,901
Administration & central services	2,255	91	1,117	-	3,463
Other expenses	494	-	547	69	1,110
Total per income and expenditure account	<u>15,536</u>	<u>1,101</u>	<u>6,689</u>	<u>69</u>	<u>23,395</u>

The depreciation charge has been funded by:

	Notes	Dep'n
Deferred capital grants released	19	255
Revaluation reserve released	21	378
General income		468
		<u>1,101</u>

9. TAXATION

	2002/03 £000	2001/02 £000
UK Corporation Tax payable	-	-
	<u>-</u>	<u>-</u>

10. SURPLUS FOR THE YEAR

As permitted by section 230 of the Companies Act 1985, the income and expenditure account of the University College (the holding company) has not been shown separately in these financial statements. The University College's surplus for the year was £ 371,000 (2001/2002: £358,000).



NOTES TO THE ACCOUNTS

11. TANGIBLE ASSETS

Group

Land and Buildings

	Freehold £000	Long Leasehold £000	Equipment £000	Total £000
Cost or valuation:				
At 1 August 2002	42,052	156	2,141	44,349
Additions at cost	215	-	673	888
Disposals at cost or valuation	-	(156)	(66)	(222)
At 31 July 2003	<u>42,267</u>	<u>-</u>	<u>2,748</u>	<u>45,015</u>
Depreciation:				
At 1 August 2002	4,995	1	1,611	6,607
Provided during the year	690	-	411	1,101
Written back on disposals	-	(1)	(66)	(67)
At 31 July 2003	<u>5,685</u>	<u>-</u>	<u>1,956</u>	<u>7,641</u>
Net book amount at 31 July 2003	<u>36,582</u>	<u>-</u>	<u>792</u>	<u>37,374</u>
Net book amount at 1 August 2002	<u>37,057</u>	<u>155</u>	<u>530</u>	<u>37,742</u>
Analysis of net book amount at 31 July 2003				
Financed by capital grant	25,631	-	118	25,749
Other	10,951	-	674	11,625
	<u>36,582</u>	<u>-</u>	<u>792</u>	<u>37,374</u>



NOTES TO THE ACCOUNTS

11. TANGIBLE ASSETS - continued

	University		College	Total £000
	Freehold £000	Long Leasehold £000	Equipment £000	
Land and Buildings				
Cost or valuation:				
At 1 August 2002	34,302	156	2,141	36,599
Additions at cost	215	-	673	888
Disposals at cost	-	(156)	(66)	(222)
At 31 July 2003	<u>34,517</u>	<u>-</u>	<u>2,748</u>	<u>37,265</u>
Depreciation:				
At 1 August 2002	3,963	1	1,611	5,575
Provided during the year	542	-	411	953
Written back on disposals	-	(1)	(66)	(67)
At 31 July 2003	<u>4,505</u>	<u>-</u>	<u>1,956</u>	<u>6,461</u>
Net book amount at 31 July 2003	<u>30,012</u>	<u>-</u>	<u>792</u>	<u>30,804</u>
Net book amount at 1 August 2002	<u>30,339</u>	<u>155</u>	<u>530</u>	<u>31,024</u>
Analysis of net book amount at 31 July 2003				
Financed by capital grant	25,631	-	118	25,749
Other	4,381	-	674	5,055
	<u>30,012</u>	<u>-</u>	<u>792</u>	<u>30,804</u>

The historical cost of the group's land & buildings property was £15,644,000, and the historical cost depreciation charge would have been £276,000.

Land and buildings with a net book amount of £25,631,000 and cost of £7,090,000 have been funded from Treasury sources. Should these particular assets be sold, the University College would either have to surrender the proceeds to the Treasury or use them in accordance with the Financial Memorandum with the Scottish Higher Education Funding Council.

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



NOTES TO THE ACCOUNTS

12. INVESTMENTS

Subsidiary Undertakings

Name of undertaking	Country of incorporation and registration	Description of shares held	Proportion of nominal value of issued shares held %	Cost at 1 August 2002 and 31 July 2003 £
QMC Enterprises Ltd	Scotland	Ordinary £1 shares	100	100
QMC Properties Ltd	Scotland	Ordinary £1 shares	100	2
Bactokil Ltd	Scotland	Ordinary £1 shares	100	<u>100</u>
				202

Other Fixed Asset Investments

	2003 £000	2002 £000
At cost:		
Scottish Knowledge plc	2	7
At market value:		
Fixed and variable interest stocks	257	259
UK equities	288	273
Cash awaiting investment	1	13
	<u>548</u>	<u>552</u>

Other fixed asset investments include £546,000 (2002: £545,000) which is held for the purpose of funding pensions payable to former staff members who have taken early retirement.

13. ENDOWMENT ASSET INVESTMENTS

Group and University College

	£000	
Balance at 1 August 2002	1,111	
Additions	111	
Disposals	(64)	
Net depreciation less appreciation	(16)	
Balance at 31 July 2003	<u>1,142</u>	
	2003 £000	2002 £000
Fixed interest stocks (listed)	75	69
Equities (listed)	205	216
Property	80	82
Debtors	172	218
Bank balances	610	526
Total endowment asset investments at market value	<u>1,142</u>	<u>1,111</u>
Fixed interest stocks and equities at cost	<u>291</u>	<u>282</u>
Land and property at cost	86	86



NOTES TO THE ACCOUNTS

14. LOAN TO SUBSIDIARY

The loan represents a loan to QMC Properties Limited, which bears interest at 1% above the base rate of the Royal Bank of Scotland plc, and has no fixed terms for repayment.

15. DEBTORS	Group		University College	
	2003 £000	2002 £000	2003 £000	2002 £000
Amounts falling due within one year:				
Debtors	783	1,283	630	1,125
Prepayments and accrued income	485	645	475	614
Amounts owed by subsidiaries	-	-	3,471	4,086
	<u>1,268</u>	<u>1,928</u>	<u>4,576</u>	<u>5,825</u>

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	Group		University College	
	2003 £000	2002 £000	2003 £000	2002 £000
Bank loan	89	77	89	77
Trade creditors	541	672	541	589
Social security and other taxation payable	357	326	330	295
Accruals and deferred income	2,822	2,987	2,724	2,905
	<u>3,809</u>	<u>4,062</u>	<u>3,684</u>	<u>3,866</u>

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

Group and University College	2003 £000	2002 £000
Bank loan	1,244	1,350
	<u>1,244</u>	<u>1,350</u>
The Bank Loan is repayable as follows:-	£000	£000
Not wholly repayable within 5 years:		
In one year or less	89	77
Between one and two years	94	81
Between two and five years	315	276
In five years or more	835	993
Total repayable	<u>1,333</u>	<u>1,427</u>
Less due in one year or less	(89)	(77)
	<u>1,244</u>	<u>1,350</u>

The loan, from The Royal Bank of Scotland plc, is unsecured, and is repayable by monthly instalments over a period of 25 years. Interest is payable on the loan at 1% above the base rate of The Royal Bank of Scotland plc.



NOTES TO THE ACCOUNTS

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Group and University College Unfunded Pensions £000
At 1 August 2002	2,805
Utilised in year	(199)
Transfer from income & expenditure account	422
At 31 July 2003	<u>3,028</u>

19. DEFERRED CAPITAL GRANTS

In respect of fixed assets funded by SHEFC, Lothian & Edinburgh Enterprise Ltd (LEEL) and The Scottish Arts Council (SAC)

	Group				
	SHEFC £000	LEEL £000	SAC £000	Other £000	TOTAL £000
At 1 August 2002	6,058	366	1,410	95	7,929
Receivable during year:					
Equipment	119	-	-	8	127
Total	<u>119</u>	<u>-</u>	<u>-</u>	<u>8</u>	<u>127</u>
Released to income and expenditure account:					
Land	32	-	-	-	32
Buildings	110	9	30	-	149
Equipment	40	-	-	34	74
Total	<u>182</u>	<u>9</u>	<u>30</u>	<u>34</u>	<u>255</u>
At 31 July 2003					
Land	1,377	-	-	-	1,377
Buildings	4,508	357	1,380	-	6,245
Equipment	110	-	-	69	179
Total	<u>5,995</u>	<u>357</u>	<u>1,380</u>	<u>69</u>	<u>7,801</u>



NOTES TO THE ACCOUNTS

19. DEFERRED CAPITAL GRANTS continued

	University College				TOTAL £000
	SHEFC £000	LEEL £000	SAC £000	Other £000	
At 1 August 2002	6,058	226	1,410	95	7,789
Receivable during year:					
Equipment	119	-	-	8	127
Total	119	-	-	8	127
Released to income and expenditure account:					
Land	32	-	-	-	32
Buildings	110	5	30	-	145
Equipment	40	-	-	34	74
Total	182	5	30	34	251
At 31 July 2003					
Land	1,377	-	-	-	1,377
Buildings	4,508	221	1,380	-	6,109
Equipment	110	-	-	69	179
Total	5,995	221	1,380	69	7,665

20. ENDOWMENTS

	Group and University College		
	Specific £000	General £000	Total £000
At 1 August 2002	764	347	1,111
Depreciation of endowment asset investments	(3)	(13)	(16)
Income for year	207	53	260
Expenditure for year	(206)	(7)	(213)
At 31 July 2003	762	380	1,142
Representing			
Prize funds	104	-	104
Other funds	658	380	1,038
	762	380	1,142



NOTES TO THE ACCOUNTS

21. REVALUATION RESERVE	Group	University College
	£000	£000
Revaluations		
At 1 August 2002 and 31 July 2003	26,589	23,575
Contribution to depreciation		
At 1 August 2002	3,044	2,827
Released in year (note 22)	378	347
At 31 July 2003	<u>3,422</u>	<u>3,174</u>
Net revaluation amount		
At 31 July 2003	<u>23,167</u>	<u>20,401</u>
At 1 August 2002	<u>23,545</u>	<u>20,748</u>
 22. INCOME AND EXPENDITURE ACCOUNT	 Group	 University College
	£000	£000
At 1 August 2002	4,001	5,968
Surplus for year	231	371
Transferred from revaluation reserve (note 21)	378	347
At 31 July 2003	<u>4,610</u>	<u>6,686</u>
 23. LEASE OBLIGATIONS	Group & University College	
	2003	2002
	£000	£000
The University College leases certain buildings and equipment under operating leases.		
Operating lease commitments on leases expiring:		
Within one year	-	14
Between two and five years	463	-
	<u>463</u>	<u>14</u>



NOTES TO THE ACCOUNTS

24. RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2002/03 £000	2001/02 £000
Surplus before tax	231	222
Depreciation (note 11)	1,101	977
Deferred capital grants released to income (note 19)	(255)	(222)
Investment income and interest receivable	(154)	(136)
Loss/(gain) on disposal of tangible fixed assets	13	(162)
Loss on sale of investments	-	30
Unrealised loss on investments	-	35
(Gain) on sale of endowment assets	(7)	(6)
Interest payable	69	80
Decrease/(increase) in stocks	14	(6)
Decrease in operating debtors	640	181
(Decrease)increase in operating creditors	(254)	1,747
Increase/(decrease) in provisions	223	(119)
	<hr/>	<hr/>
Net cash inflow from operating activities	1,621	2,621
	<hr/>	<hr/>

25. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2002/03 £000	2001/02 £000
Net income/(expenditure) from endowments	94	(126)
Investment income received	29	10
Other interest received	125	126
Interest paid	(69)	(80)
	<hr/>	<hr/>
	179	(70)
	<hr/>	<hr/>

26. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2002/03 £000	2001/02 £000
Tangible assets acquired (other than leased equipment)	888	438
Investments acquired	92	148
Endowment asset investments acquired	27	50
	<hr/>	<hr/>
Total fixed and endowment asset investments acquired	1,007	636
	<hr/>	<hr/>
Receipts from disposal of tangible fixed assets	(142)	(244)
Receipts from sales of investments	(85)	(148)
Receipts from sales of endowment assets	(24)	(48)
Deferred capital grants received	(147)	(42)
Endowments received	-	(210)
	<hr/>	<hr/>
	609	(56)
	<hr/>	<hr/>



NOTES TO THE ACCOUNTS

27. ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR

	(Total Mortgages & Loans) £000
Balance at 31 July 2002	1,427
Capital repayments	(94)
Net amount repaid in year	(94)
Balance at 31 July 2003	1,333

28. ANALYSIS OF CHANGES IN NET FUNDS/(DEBT)

	At 1 August 2002 £000	Cash Flows £000	Other Changes £000	At 31 July 2003 £000
Cash at bank and in hand				
Endowment assets	526	84	-	610
Other	3,418	1,013	-	4,431
	<u>3,944</u>	<u>1,097</u>	<u>-</u>	<u>5,041</u>
Debt due within one year	(77)	94	(106)	(89)
Debt due after one year	(1,350)	-	106	(1,244)
	<u>2,517</u>	<u>1,191</u>	<u>-</u>	<u>3,708</u>

29. PENSIONS AND SIMILAR OBLIGATIONS

The University College's employees belong to two principal pension schemes, the Scottish Teachers Superannuation Scheme (STSS) and the Local Government Pension Scheme (LGPS) which are of multi-employer defined benefit type. The assets of the LGPS scheme are held in a separate trustee-administered fund. The STSS scheme is unfunded and its benefits are paid by Her Majesty's Government and financed by the contributions paid by serving teachers and employers. The total pension cost in relation to both schemes, which was equal to the contributions paid, was £1,162,000 (2001/02: £1,048,000).



NOTES TO THE ACCOUNTS

29. PENSIONS AND SIMILAR OBLIGATIONS (continued)

A) Local Government Pension Scheme (LGPS)

Under the transitional arrangements of Financial Reporting Standard 17 (FRS17), the University College is required to disclose further information on its share of the assets and liabilities of the LGPS on a FRS17 market value basis at the end of the accounting year. Under current market conditions, the University College's share of the net liabilities of the scheme could extend to £4,228,000 (2002: £2,433,000). The assumptions used by the actuary in updating the most recent valuations for the scheme for FRS17 purposes were as follows:-

Assumptions at	31 July 2003	31 July 2002
Discount rate	5.5%	6.0%
Salary increase rate	4.1%	3.9%
Pension increase rate	2.6%	2.4%
Rate of price inflation	2.6%	2.4%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice.

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

	Long term rate of return at 31 July 2003	Value at 31 July 2003 £000	Long term rate of return at 31 July 2002	Value at 31 July 2002 £000
Equities	8.0%	9,174	8.0%	7,377
Bonds	5.0%	823	5.5%	804
Property	6.0%	1,081	6.0%	852
Cash	3.5%	374	4.0%	129
Total	7.4%	11,452	7.5%	9,162

	Value at 31 July 2003 £000	Value at 31 July 2002 £000
Estimated employer assets (A)	11,452	9,162
Present value of scheme liabilities	15,220	11,163
Present value of unfunded liabilities	460	432
Total value of employer liabilities (B)	15,680	11,595
Net pension liability (A) – (B)	(4,228)	(2,433)

The amount of this net pension liability would have a consequential effect on reserves.

Movement in net surplus during the year	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
(Deficit) at beginning of year	(2,433)	(2,042)
Current service cost	(481)	(491)
Employer contributions	725	628
Past service costs	(44)	-
Impact of settlements and curtailments	-	(19)
Net return on assets	32	(38)
Actuarial gains/(losses)	(2,027)	(471)
(Deficit) at end of year	(4,228)	(2,433)



NOTES TO THE ACCOUNTS

29. PENSIONS AND SIMILAR OBLIGATIONS (continued)

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

In order to address the scheme deficit, employer contribution rates have been increased in recent years, with further increases planned up to 2006. No indication has been received from the scheme trustees that any capital sum contribution will be sought from employers to reduce the amount of the deficit and the University College has requested and awaits further information on the future plans to bring the scheme back to a balanced position.

In accordance with advice from the UK funding councils the transitional arrangements of FRS17 have been followed for the 2002/03 statutory accounts. For information, if FRS17 had been fully adopted in these financial statements the pension costs effect would have been as follows:-

Analysis of other pension costs charged in arriving at operating profit:-

	Year ended 31 July 2003	Year ended 31 July 2002
	£000	£000
Current service cost	481	491
Past service costs	44	-
Curtailment and settlements	-	19
Total operating charge	525	510

Analysis of amounts included in other finance income/costs:-

Expected return on employer assets	(715)	(699)
Interest on pension scheme liabilities	683	737
Net return	(32)	38

Net income and expenditure account charge

493 **548**

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

	Year ended 31 July 2003	Year ended 31 July 2002
	£000	£000
Actual return less expected return on pension scheme assets	349	(2,418)
Experience gains and losses arising on the scheme liabilities	(372)	169
Changes in financial assumptions underlying the present value of the scheme liabilities	(2,004)	1,778
Actuarial loss recognised in STRGL	(2,027)	(471)

History of experience gains and losses:-

	Year ended 31 July 2003	Year ended 31 July 2002
	£000	£000
Difference between the expected and actual return on assets	349	(2,418)
Value of assets	11,452	9,162
Percentage of assets	3.0%	(26.4%)
Experience (losses)/gains on liabilities	(372)	169
Present value of liabilities	15,680	11,163
Percentage of the present value of liabilities	(2.4%)	1.5%
Actuarial (losses) recognised in the STRGL	(2,027)	(471)
Present value of liabilities	15,680	11,163
Percentage of the present value of liabilities	(12.9%)	(4.2%)



NOTES TO THE ACCOUNTS

29. PENSIONS AND SIMILAR OBLIGATIONS (continued)

B) Scottish Teachers' Superannuation Scheme (STSS)

The last actuarial valuation of the scheme for which information is available was at 31 March 1996. The assumptions that have had the most significant effect on the valuations and other relevant data are as follows:

Rate of return on investments in excess of rate of increases in salaries	2.0%
Rate of return on investments in excess of rate of increases in pensions	3.5%
Market value of the assets at 31 March 1996	£2,673m
Actuarial method	Prospective benefit

At the actuarial valuation date the STSS showed a deficiency of £142 million, which requires a supplementary provision by employers of 0.5% per annum for a period of 40 years. This is being effected through an adjustment to employers' contribution rates. The employers' contribution rates payable by the University College were 7.15% until 31 March 2003, and 7.4% from 1 April 2003. This contribution rate has subsequently been increased to 12.5% with effect from 1 October 2003. No indication has been received from the scheme trustees that any capital sum contribution will be sought from employers to reduce the amount of the deficit, and the University College has requested and awaits further information on the availability of a more recent published actuarial valuation and future plans to bring the scheme back to a balanced position.

The STSS is a multi-employer scheme where the share of assets and liabilities applicable to each employer is not identified. The University College will therefore account for its contributions on a defined contribution basis, as permitted by FRS17.

C) Universities' Superannuation Scheme (USS)

Two senior members of staff of the University College participate in the USS. The latest actuarial valuation of the scheme was at 31 March 2002. The assumptions which have the most significant effect on the result of the valuation in relation to future service liabilities are as follows:

Valuation rate of interest	6.0%
Rate of salary increase	3.7%
Rate of pensions increase	2.7%

At the valuation date, the market value of the assets of the scheme was £19,938 million and the value of past service liabilities was £19,776 million, leaving a surplus of assets of £162 million. The assets were therefore sufficient to cover 101% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The USS is a multi-employer scheme where the share of assets and liabilities applicable to each employer is not identified. The University College will therefore account for its contributions on a defined contribution basis, as permitted by FRS17.

D) Other pension liabilities

The University College 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 2003, on the basis of valuation prescribed by FRS17. The total provision in respect of this liability is £2,964,000 (2002: £2,805,000).



NOTES TO THE ACCOUNTS

30. RELATED PARTY TRANSACTIONS

Members of the Governing Body are regarded as related parties. During the year Queen Margaret University College, Edinburgh has had various material transactions with the following organisations with which members of the Governing Body are connected:

Name of Governing Body Member	Organisation
Professor Sally Brown	University of Stirling
Professor Anthony Cohen	University of Edinburgh
Councillor Elizabeth Maginnis	City of Edinburgh Council (Councillor)
Sir John Ward	Scottish Qualifications Authority

All transactions arose from the provision of goods and services at arms length and in the normal course of business with these organisations.

31. CAPITAL COMMITMENTS

The University College has entered into conditional missives for the purchase of a site at Craighall in East Lothian. The University College proposes to develop a new campus on this site, and to transfer the existing operations carried out at its Corstorphine and Leith sites to this new campus in 2007. The cost of the development is expected to be around £50 million; this will be funded by a combination of the proceeds of the sale of existing sites, fundraising and additional borrowings. The business case for the new campus development has been reviewed by the Scottish Higher Education Funding Council, which has given its approval in principle to proceed with the project.

32. HARDSHIP FUNDS AND MATURE STUDENTS' BURSARY FUNDS

	2002/03 £000	2001/02 £000
HARDSHIP FUNDS		
Balance at 1 August	5	51
Amounts received from Student Awards Agency for Scotland	86	113
Interest earned	1	1
	92	165
Disbursed to students	(67)	(160)
Balance unspent at 31 July	25	5
MATURE STUDENTS' BURSARY FUNDS		
Balance at 1 August	5	-
Amounts received from Student Awards Agency for Scotland	75	18
Interest earned	-	-
	80	18
Disbursed to students	(46)	(11)
Administration costs	(3)	(2)
Balance unspent at 31 July	31	5

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