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# Queen Margaret University, Edinburgh

## Statement of Accounts

*for the year ended 31st July 2007*

Registered No. 7335

Scottish Charity No. SC002750



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## REPORT OF THE UNIVERSITY COURT ON THE FINANCIAL STATEMENTS

The University Court presents its report and the audited financial statements for the year ended 31 July 2007.

During the year, the Privy Council confirmed the award of full university title to the institution. The University also appointed its first Chancellor, Sir Tom Farmer, whose inauguration took place at a ceremony held in July 2007.

The University moved into its new campus at Craighall in East Lothian during the autumn of 2007. The attractiveness of this new purpose-built facility, along with the achievement of full university title, are expected to lead to an increase in the number of applications from potential students wishing to study at Queen Margaret University.

### Results for the Year

The University's consolidated results for the year to 31 July 2007 are summarised as follows:-

	<b>2006/07</b>	<b>2005/06</b>
	<b>£000</b>	<b>£000</b>
Income from normal recurring activities	27,274	27,440
Expenditure on normal recurring activities	(26,506)	(26,341)
<b>Surplus on normal recurring activities</b>	<b>768</b>	<b>1,099</b>
Difference between historical cost depreciation charge and the actual charge for the year calculated on the revalued amount	347	347
Realisation of revaluation reserve on disposal of Leith campus	-	1,517
Historical cost surplus before non-recurring items	1,115	2,963
Net effect of FRS17 adjustments	288	(21)
Additional estates remedial works	(80)	(348)
Non-recurring Re:Locate project costs	(414)	(250)
Gain on disposal of Leith campus	-	226
Accelerated release from deferred capital grant on Leith campus	-	130
Historical cost surplus for the year	909	2,700

The surplus for the year is affected by adjustments related to pension costs arising from the implementation of Financial Reporting Standard 17 (FRS17) on Retirement Benefits. The net effect of the FRS17 adjustments, which are set out in more detail in note 28 to the accounts, was a surplus of £288,000 (2005/06, deficit £21,000). Included within operating expenses for 2006/07 is an amount of £80,000 (2005/06, £348,000) in respect of additional estates remedial works, which have required to be carried out at the existing campuses to ensure compliance with health and safety and other legislative requirements, including compliance with disabilities discrimination legislation, and a further amount of £414,000 (2005/06, £250,000) in respect of the campus relocation project. The underlying operating position, excluding the effect of these additional items, is thus a surplus of £768,000 (2005/06, £1,099,000).

### Strategic Plan 2007-2012

The Court of the University approved a new strategic plan in June 2007. The plan emphasises the distinctive contribution made and role fulfilled by QMU in the Scottish higher education sector underpinned by its diversity. Set in the context of a challenging financial environment, the plan reflects QMU's ongoing commitment to continuing excellence in learning and teaching and in developing research and knowledge transfer activity. The particular need for QMU, operating in a globally competitive higher education market, to generate additional income from non-UK government sources is addressed in the plan's key themes:

- Opening doors for students through the development of **overseas partnerships** and **part-time provision**;
- Generating research that is relevant **to the knowledge economy**, **multi disciplinary** in its approach and **methodologically innovative**; and
- Increasing substantially our **commercialisation**, **knowledge transfer** and **knowledge translation** activity.

To achieve the Plan's aims the Court has agreed to targeted investment in these areas.



## REPORT OF THE UNIVERSITY COURT ON THE FINANCIAL STATEMENTS (CONTINUED)

### Status

Queen Margaret University is an autonomous Scottish higher education institution, and is registered under the Companies Act 1985 as a company limited by guarantee. The University has been entered into the Scottish Charity Register and is entitled, in accordance with section 13(1) of the Charities and Trustee Investment (Scotland) Act 2005, to refer to itself as a Charity registered in Scotland.

### Principal Activities

The mission of the University 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 12 to 34 comprise the consolidated results of the University 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 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 of services (other than research) for a variety of commercial and other organisations.

**QMC Properties Ltd** and **Bactokil Ltd** are currently dormant.

All subsidiary companies transfer the whole of any taxable profits to the University under Gift Aid or dividend arrangements.

### Social Inclusion

Queen Margaret University embraces a commitment to offering higher education to a diverse student body. Student recruitment is enhanced through a series of initiatives to widen participation as well as the good links with Further Education Colleges in the Lothians, Fife and the Borders.

### Graduates into Employment

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

### 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 2007, trade creditors represented 26 days of relevant expenditure (2006: 13 days).

### 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, and through regular communication from the Vice Chancellor. The University operates career review and staff development schemes for both academic and support staff, and, in common with other universities, has recently implemented the Framework Agreement for modernisation of pay and grading structures.



## REPORT OF THE UNIVERSITY COURT ON THE FINANCIAL STATEMENTS (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 there is student representation on all other major committees of the University. The University also provides an annual grant to the Students' Union. Input from students has been most helpful in the development of the new campus at Craighall.

### 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. The number of members at 31 July 2007 was 82 (2006: 85). Distributions to members are not permitted by the Memorandum and Articles of Association of the Company.

### Pension Arrangements

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

The Lothian Pension Fund, which is part of the Local Government Pension Scheme (LGPS), is a multi-employer defined benefit scheme. The scheme had a deficit at 31 July 2007. The Fund trustees have, in recent years, applied increases to the level of employers' contributions to the scheme in order to recover this deficit position. In accordance with Financial Reporting Standard 17 (FRS17) on Retirement Benefits, QMU's share of the fund deficit, as calculated by the scheme actuary, has been shown as a liability at 31 July 2007.

The most recent actuarial review of the Scottish Teachers' Superannuation Scheme (STSS) for which results are available was undertaken as at 31 March 2001. The level of employers' contributions to this scheme rose from 12.5% to 13.5% with effect from 1 April 2007.

The most recent actuarial review of the Universities' Superannuation Scheme (USS) was undertaken as at 31 March 2005. As a result of this review, the level of employers' contributions remained unchanged at 14%.

### Conclusion

In common with other universities, QMU has to manage its activities whilst facing pressures on its funding as well as on its cost base. In particular, grant support from government through the Scottish Funding Council (SFC), the University's main source of income, has not kept pace with inflation and pay awards over the last ten years. Further cost pressures on wages and salaries are anticipated as the full effects of the implementation of the higher education framework agreement work through the system.

Queen Margaret University is now entering a new and exciting chapter in its 132-year history. Having secured full university title and successfully migrated to its new purpose-built campus, the University is well placed to take advantage of the range of opportunities which these milestone achievements will bring. The University has developed a new strategic plan, which concentrates on developing existing academic strategies to enable the institution to achieve the objective of long-term sustainability at its new home in East Lothian.

As in previous years, the long term financial health of the institution will depend upon its ability (a) to grow and diversify its income base; (b) to control costs, and; (c) to improve net income generation from research and knowledge transfer activities.

### On behalf of the University Court

Professor Ian Percy, CBE  
Chairman  
12 December 2007



## MEMBERSHIP OF THE UNIVERSITY COURT

<i>Professor Ian Percy, CBE</i>	<i>N R</i>	<i>Chairman</i>	<i>Deputy Chairman The Weir Group plc and Ricardo plc</i>
<i>Morag Alexander, OBE</i>	<i>A</i>		<i>Convener, Scottish Social Services Council</i>
<i>Joanna Baker</i>		<i>Appointed 1 June 2007</i>	<i>Managing Director, Edinburgh International Festival</i>
<i>James Bain</i>		<i>Retired 24 May 2007</i>	<i>Elected support staff member</i>
<i>John Baxter</i>			<i>Student member</i>
<i>Dr Janet Beck</i>		<i>Appointed 18 June 2007</i>	<i>Staff Member, Appointed by Senate</i>
<i>Professor Sally Brown, OBE</i>	<i>E N</i>		<i>Former Deputy Principal, University of Stirling</i>
<i>Keir Bloomer</i>		<i>Appointed 12 March 2007</i>	<i>Former Chief Executive, Clackmannanshire Council</i>
<i>Sharon Brown</i>	<i>F</i>	<i>Appointed 1 August 2006</i>	<i>Finance Director &amp; Company Secretary, Dobbies Garden Centres plc</i>
<i>Dr Graham Buckley</i>	<i>A</i>		<i>Former Chief Executive, NHS Education for Scotland</i>
<i>Rune By</i>		<i>Appointed 24 May 2007</i>	<i>Elected academic staff member</i>
<i>Marcia Campbell</i>	<i>R</i>		<i>Group Operations Director, Standard Life plc</i>
<i>Maureen Child</i>			<i>Councillor, City of Edinburgh Council</i>
<i>Professor Anthony Cohen</i>	<i>E F N</i>		<i>Principal and Vice-Chancellor</i>
<i>Professor Marie Donaghy</i>		<i>Retired 15 June 2007</i>	<i>Staff Governor, Appointed by Academic Council</i>
<i>Dr Frances Dow</i>			<i>Former Vice Principal, University of Edinburgh</i>
<i>Dr Zoe Dunhill, MBE</i>			<i>Consultant Paediatrician</i>
<i>Dr Mark Gillham</i>		<i>Retired 24 May 2007</i>	<i>Elected academic staff member</i>
<i>Ronald Hanna</i>	<i>A</i>		<i>Former Chief Executive, Bett Brothers plc</i>
<i>Professor David Kirk</i>	<i>E</i>	<i>Appointed 23 May 2007</i>	<i>Vice Principal</i>
<i>Vikram Lall, CBE</i>	<i>F R N</i>		<i>Chair, Scottish Industrial Development Advisory Board</i>
<i>Rosalyn Marshall</i>	<i>E F</i>		<i>Vice Principal and University Secretary</i>
<i>Norman Murray</i>		<i>Retired 30 June 2007</i>	<i>Former Council Leader, East Lothian Council</i>
<i>John Newall</i>	<i>E R</i>		<i>Former Senior Partner, McGrigor Donald</i>
<i>George Sutherland</i>	<i>F</i>	<i>Appointed 1 December 2006</i>	<i>Former Director of Finance, University of Edinburgh</i>
<i>Jamie Tait</i>		<i>Appointed 24 May 2007</i>	<i>Elected support staff member</i>
<i>Tom Ward</i>	<i>N A</i>	<i>Retired 31 October 2006</i>	<i>Corporate Development Director, Scottish &amp; Newcastle plc</i>
<i>James Wilkinson</i>	<i>E</i>	<i>Appointed 1 June 2006</i>	<i>Student President</i>

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's Structure of Corporate Governance

The University is committed to exhibiting good practice in all aspects of corporate governance. This summary describes the manner in which the University has applied the principles set out in the revised Combined Code on Corporate Governance issued by the London Stock Exchange in July 2003, in so far as they apply to the higher education sector. The University has followed the 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 Members of the University Court, the University 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 2007. The University Court has also received the Governance Code of Practice published in November 2004 by the Committee of University Chairmen, and the Members of Court consider that the University complies with the main principles of the Code of Practice. The University maintains a register of interests of members of the University Court and senior officers, which may be consulted by arrangement with the University Secretary.

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 of a view 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 2007 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the University Court, and accords with the Turnbull guidance, as applicable to the higher education sector. In the light of the significant risks associated with the campus relocation project, a formal risk management process has been developed whereby regular workshops are held involving senior management, and which are facilitated by an external risk management expert. As well as covering the relocation project, these sessions have a major focus on the broader strategic risks which face the University, and have resulted in the production of an action plan to address each of the risks identified in the register. Although the University has not yet formally approved a business continuity plan for the whole organisation, each of the key areas within the institution, including the Strategic Management Group, has in place local procedures detailing action to be taken in response to a potential or actual disaster. An office-led business continuity project has been established and will make an initial report to the University Court early in 2008. Risk management is a standing item on the agenda of the Senior Management Group and the Audit Committee, and regular reports are made to the University Court.

The University Court comprises lay and academic persons appointed under the University's Statutory Instrument. The majority are non-executive and the roles of Chairman and Vice-Chairman of the University Court are separated from the role of the University's chief executive, the Principal and Vice Chancellor. Under the Statutory Instrument, the University Court delegates to the Vice Chancellor the organisation, management and discipline of the University. In discharging these functions, the Vice Chancellor is subject to the general control and direction of, and is accountable to, the University Court but otherwise has all powers and duties of the University Court in relation to these functions. Under the Financial Memorandum with the Scottish Funding Council (SFC), the University Court is responsible for the ongoing 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 six scheduled meetings per annum, and has delegated authority to a number of Committees, including a Nominations Committee, a Senior Management Remuneration Committee, an Estates Committee, a Finance Committee and an Audit Committee. All of these Committees are formally constituted with terms of reference and comprise mainly lay members of the University Court, one of whom is the Chair.

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



### CORPORATE GOVERNANCE STATEMENT (Continued)

The Senior Management Remuneration Committee reviews and agrees the reward and performance management and salary policies for the Principal and Vice Chancellor and other senior staff.

The Estates Committee considers matters relating to the University's estate, with a particular emphasis on the campus relocation project, Re:Locate.

The Finance Committee recommends to the University Court the University's financial strategy as well as the annual revenue and capital budgets and monitors performance in relation to the approved budgets. It reviews the University's annual financial statements in respect of their financial content. The Committee also monitors the financial arrangements for the Re:Locate project.

The Audit Committee meets, at least three times annually, to discuss audit risk and control issues, with the University's external and internal auditors in attendance as appropriate. The Committee considers detailed internal audit reports and recommendations for the improvement of the University's systems of internal control, together with management's responses and implementation plans. It also receives and considers reports from the Scottish Funding Council as they affect the University's business and monitors adherence with the regulatory requirements. It reviews the University's annual financial statements from a regulatory and compliance 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. The identification, assessment and management of risk is a standing item which is considered at each meeting of the Audit Committee. These matters are subsequently reported to the University Court.

The Strategic Management Group 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 University Court receives reports as appropriate on risk and control issues from senior management and the Audit Committee.

#### System of Internal Financial Control

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

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

The Audit Committee, on behalf of the University Court, 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 mis-statement or loss.

#### Going Concern

After making appropriate enquiries, the University Court considers that the University has adequate resources to enable it to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

#### On behalf of the University Court

Professor Ian Percy, CBE  
Chairman  
12 December 2007



## RESPONSIBILITIES OF THE UNIVERSITY COURT

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

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

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

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

The University Court has taken reasonable steps to:

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

### Disclosure of information to auditors

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



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

We have audited the group and parent University financial statements of Queen Margaret University for the year ended 31 July 2007 which comprise the group Income and Expenditure Account, the group and parent University Balance Sheets, the group Cash Flow Statement, the group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

**Respective Responsibilities of the University Court and Auditors**

The University Court's responsibilities for preparing the report of the University Court and the group and parent University financial statements in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education (2003), applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 (2003). We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Memorandum and Articles of Association and, where appropriate, with the Financial Memorandum with the Scottish Funding Council. We also report to you whether in our opinion the report of the University Court is not consistent with the financial statements, if the University has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the report of the University Court and the Corporate Governance Statement and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements.

**Basis of Opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code of Audit Practice issued by the Scottish Funding Council. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the University Court in the preparation of the financial statements and of whether the accounting policies are appropriate to the group and parent University'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 misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.



**INDEPENDENT AUDITORS' REPORT (continued)**

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the group and parent University as at 31 July 2007 and of the group's surplus of income over expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education (2003);
- in all material respects, income from the Scottish Funding Council, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2007 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2007 has been applied in accordance with the University's Memorandum and Articles of Association and, where appropriate, with the Financial Memorandum with the Scottish Funding Council.

*KPMG LLP*

**KPMG LLP**  
*Chartered Accountants*  
*Registered Auditor*

12 December 2007

Saltire Court  
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 and its subsidiary undertakings for the financial year ended 31 July 2007. Details of the subsidiary companies are given in Note 13.

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

**(C) 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 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 on a straight line basis over their expected useful lives of 50 years. No depreciation is charged on assets in the course of construction.

Interest payable on short-term borrowings associated with the development of the new campus at Craighall is capitalised as part of the project cost. 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.

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 four years, being its expected useful life.

**(D) Recognition of Income**

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

Grants for recurrent expenditure are credited to income in the year in which they are receivable. 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 University Court, necessary for the financial statements to give a true and fair view in accordance with applicable accounting standards.

**(F) Stock**

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

**STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)****(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's treasury management activities. They exclude any such assets held as endowment asset investments.

**(H) Taxation**

The University is recognised by HM Revenue & Customs as a charity for the purposes of section 505, Income and Corporation Taxes Act 1988, and is exempt from corporation tax on its charitable activities. This treatment does not extend to the subsidiary companies, which thus transfer any taxable profit to the University in accordance with Gift Aid provisions or by way of dividend. Non-recoverable Value Added Tax arising from expenditure on non-trading activities is charged to the income and expenditure account.

**(I) Provisions**

Provisions are recognised when the University has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**(J) Pension Costs**

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

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

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

**(K) Leasing**

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

**(L) Research and Development Expenditure**

Expenditure on research and development is charged to the income and expenditure account in the year in which it is incurred.



## CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

For the Year Ended 31 July 2007

	Note	2006/07 £000	2005/06 £000
<b>INCOME</b>			
Scottish Funding Council grants	1	13,674	13,470
Tuition fees and education contracts	2	7,461	7,572
Research grants and contracts	3	2,803	3,137
Other operating income	4	3,144	3,161
Endowment and investment income	5	327	230
 Total income		<u>27,409</u>	<u>27,570</u>
<b>EXPENDITURE</b>			
Staff costs	6	17,361	17,313
Other operating expenses	7	8,173	8,289
Depreciation	12	1,333	1,387
Interest payable	9	-	-
 Total expenditure		<u>26,867</u>	<u>26,989</u>
Surplus after depreciation of fixed assets at valuation and before tax		542	581
Gain on disposal of assets	12	-	226
Surplus after depreciation of fixed assets at valuation and disposal of assets but before tax		542	807
Taxation	10	-	-
Surplus on continuing operations after depreciation of fixed assets at valuation and tax		542	807
Transfer from accumulated income within specific endowments		20	29
Surplus for the year retained within general reserves		<u>562</u>	<u>836</u>

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

## NOTE OF HISTORICAL COST SURPLUSES AND DEFICITS

For the Year Ended 31 July 2007

	Note	2006/07 £000	2005/06 £000
Surplus on continuing operations before taxation		562	836
Difference between historical cost depreciation charge and the actual charge for the year calculated on the revalued amount	21	347	347
Realisation of property revaluation gains of previous years	21	-	1,517
Historical cost surplus before and after taxation		<u>909</u>	<u>2,700</u>



**STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES**

**For the Year Ended 31 July 2007**

	Note	2006/07 £000	2005/06 £000
Surplus after depreciation of assets at valuation and tax		562	836
Additions to /(disposals of) endowments	20	(945)	411
(Depreciation)/appreciation of investments	21	(48)	26
Appreciation/(depreciation) of endowment asset investments	20	(51)	27
Net (expenditure) from specific endowments		(19)	(29)
Actuarial gain/(loss) in respect of Local Government Pension Scheme		3,438	422
Revaluation reserve disposals adjustment		-	490
<b>TOTAL RECOGNISED GAINS RELATING TO THE YEAR</b>		<u>2,937</u>	<u>2,183</u>
 Reconciliation			
Opening reserves and endowments		23,158	20,975
Total recognised gains and losses relating to the year		2,937	2,183
Closing reserves and endowments		<u>26,095</u>	<u>23,158</u>



## BALANCE SHEETS AS AT 31 JULY 2007

	Note	<u>Group</u>		<u>University</u>	
		<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
		£000	£000	£000	£000
<b>FIXED ASSETS</b>					
Tangible assets	12	95,782	54,768	95,782	54,768
Investments	13	-	631	-	631
		<u>95,782</u>	<u>55,399</u>	<u>95,782</u>	<u>55,399</u>
<b>ENDOWMENT ASSET INVESTMENTS</b>	14	<u>609</u>	<u>1,624</u>	<u>609</u>	<u>1,624</u>
<b>CURRENT ASSETS</b>					
Stocks		24	26	24	26
Debtors	15	1,076	1,149	1,172	1,936
Cash at bank and in hand		41	2,560	12	1,846
		<u>1,141</u>	<u>3,735</u>	<u>1,208</u>	<u>3,808</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	16	<u>(7,677)</u>	<u>(7,679)</u>	<u>(7,633)</u>	<u>(7,634)</u>
<b>NET CURRENT (LIABILITIES)</b>		<u>(6,536)</u>	<u>(3,944)</u>	<u>(6,425)</u>	<u>(3,826)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>89,855</u>	<u>53,079</u>	<u>89,966</u>	<u>53,197</u>
<b>CREDITORS : AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>	17	<u>(38,903)</u>	<u>(13,520)</u>	<u>(38,903)</u>	<u>(13,520)</u>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	18	<u>(3,445)</u>	<u>(3,664)</u>	<u>(3,445)</u>	<u>(3,664)</u>
<b>NET ASSETS excluding pension liability</b>		<u>47,507</u>	<u>35,895</u>	<u>47,618</u>	<u>36,013</u>
<b>PENSION LIABILITY</b>		<u>(1,177)</u>	<u>(4,903)</u>	<u>(1,177)</u>	<u>(4,903)</u>
<b>NET ASSETS including pension liability</b>		<u>46,330</u>	<u>30,992</u>	<u>46,441</u>	<u>31,110</u>



## BALANCE SHEETS AS AT 31 JULY 2007

	Note	Group		University	
		2007 £000	2006 £000	2007 £000	2006 £000
Represented by:					
DEFERRED CAPITAL GRANTS	19	20,235	7,834	20,235	7,834
ENDOWMENTS	20	609	1,624	609	1,624
RESERVES					
Revaluation reserve	21	20,689	21,084	19,012	19,407
Income and expenditure account	22	5,974	5,353	7,762	7,148
Pension reserve	22	(1,177)	(4,903)	(1,177)	(4,903)
Total General reserves		4,797	450	6,585	2,245
TOTAL RESERVES		25,486	21,534	25,597	21,652
TOTAL ENDOWMENTS AND RESERVES		26,095	23,158	26,206	23,276
TOTAL		46,330	30,992	46,441	31,110

The financial statements on pages 12 to 34 were approved by the University Court on 12 December 2007 and signed on its behalf by:

Professor Ian Percy, CBE  
(Chairman)

Professor Anthony Cohen  
(Principal and Vice Chancellor)



**CONSOLIDATED CASH FLOW STATEMENT**

**For the Year Ended 31 July 2007**

	Note	2006/07 £000	2005/06 £000
Net cash inflow from operating activities	24	101	1,452
Returns on investments and servicing of finance	25	757	(275)
Taxation		-	-
Capital expenditure and financial investment	26	(28,023)	(11,657)
		<u>          </u>	<u>          </u>
Cash (outflow) before use of liquid resources and financing		(27,165)	(10,480)
Management of liquid resources		-	-
Financing	17	24,214	13,071
Increase/(decrease) in cash	27	<u>(2,951)</u>	<u>2,591</u>

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS**

		2006/07 £000	2005/06 £000
Increase/(decrease) in cash in the period		(2,951)	2,591
Cash inflow from secured loan	17	(24,214)	(13,071)
Repayment of debt		-	-
Change in net funds/(debt)		<u>(27,165)</u>	<u>(10,480)</u>
Net funds/(debt) at 1 August		(10,480)	-
Net funds/(debt) at 31 July		<u>(37,645)</u>	<u>(10,480)</u>



## NOTES TO THE ACCOUNTS

	2006/07 £000	2005/06 £000
<b>1. SCOTTISH FUNDING COUNCIL GRANTS</b>		
Recurrent grant		
Teaching	11,982	11,647
Research	701	653
Specific grants		
Wider access	65	91
Additional funded places for allied health professions	-	88
Disabled students premium	74	62
Knowledge transfer	84	118
Scottish Teachers' Superannuation Scheme compensation	257	342
FE/HE articulation grant	86	38
Pay structure & human resources management improvement	-	98
Fee waiver scheme	14	13
Other miscellaneous grants	22	-
Deferred capital grants released (note 19)		
Land & buildings	142	142
Equipment	247	178
	13,674	13,470
<b>2. TUITION FEES AND EDUCATION CONTRACTS</b>		
UK higher education students	4,538	4,330
European Union (excluding UK) students	697	527
Non-European Union students	1,929	2,337
Other fees	37	44
Education contracts	260	334
	7,461	7,572
<b>3. RESEARCH GRANTS AND CONTRACTS</b>		
Research councils	299	221
UK based charities	195	263
UK government and health authorities	1,518	1,597
UK private sector	447	527
European funding	89	237
Other grants & contracts	255	292
	2,803	3,137
<b>4. OTHER OPERATING INCOME</b>		
Residences, catering and conferences	2,329	2,342
University shop	221	222
Released from deferred capital grants (note 19)	95	227
Other income	499	370
	3,144	3,161



## NOTES TO THE ACCOUNTS

	2006/07 £000	2005/06 £000
<b>5. ENDOWMENT AND INVESTMENT INCOME</b>		
Income from investments	29	26
Interest receivable	102	96
Income from endowments (note 20)	41	79
Net return on pension asset/liability	155	29
	<u>327</u>	<u>230</u>
<b>6. STAFF</b>		
Staff costs:		
Wages and salaries	14,655	14,173
Social security costs	1,121	1,069
Other pension costs	1,585	2,071
	<u>17,361</u>	<u>17,313</u>
Average full time equivalent staff numbers by major category:		
	FTE number	FTE number
Academic staff	184	194
Other staff (including staff engaged on research grants & contracts)	276	310
	<u>460</u>	<u>504</u>
	£	£
Directors' emoluments (including pension contributions)		
Fees for services as Members of University Court	-	-
Emoluments (i.e. salaries as members of staff)	361,052	342,449
Contributions paid to pension schemes	51,789	48,225
Benefits in kind	1,267	682
Total	<u>414,108</u>	<u>391,356</u>
These figures relate to nine members of staff, including the Principal.		
Emoluments of Principal and Vice-Chancellor (who was also the highest paid Member of the University Court)		
Professor Anthony P Cohen		
Salary	132,499	131,334
Pension contributions	18,550	15,787
Benefits in kind	-	-
Total	<u>151,049</u>	<u>147,121</u>

Pension contributions for the Principal are in respect of employers' contributions to the Universities' Superannuation Scheme, and are paid at the same rate as for other employees in that scheme.



## 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:-

	2006/07 Number	2005/06 Number
£70,001 to £80,000	9	6
£80,001 to £90,000	2	-
£90,001 to £100,000	1	1
£100,001 to £110,000	1	1
£140,001 to £150,000	-	1
£150,001 to £160,000	1	-

### 7. OTHER OPERATING EXPENSES

	2006/07 £000	2005/06 £000
Residences, catering and conferences operating expenses	741	945
Consumables and laboratory expenditure	748	883
Books and periodicals	471	466
Heat, light and water	638	496
Repairs and general maintenance	712	1,106
Campus relocation project (revenue costs)	375	250
Grants to QMU Students' Union	190	146
Research student grants	163	200
Rents and rates	73	75
External auditors' remuneration (of which £19,000 refers to University)	25	26
External auditors' remuneration in respect of non-audit services	10	-
Internal auditors' remuneration (all relating to University)	23	27
University shop	149	151
Marketing	270	319
Postage, stationery, reprographics, telephone	457	518
Travel & subsistence and staff development	345	270
Staff recruitment	139	77
Insurance	199	190
Research grants and contracts	1,194	831
Endowment expenditure	48	61
SFC special initiative grant expenditure	86	187
Other expenses	1,117	1,065
	8,173	8,289



## NOTES TO THE ACCOUNTS

## 8. ANALYSIS OF 2006/07 EXPENDITURE BY ACTIVITY

	Staff Costs	Dep'n	Other Operating Expenses	Total
	£000	£000	£000	£000
Academic departments	9,903	318	1,042	11,263
Academic services	1,279	321	1,479	3,079
Research grants & contracts	1,277	-	1,194	2,471
Residences, catering and conferences	633	-	755	1,388
Premises	839	603	2,041	3,483
Administration & central services	3,338	91	1,290	4,719
Other expenses	92	-	372	464
Total per income and expenditure account	<u>17,361</u>	<u>1,333</u>	<u>8,173</u>	<u>26,867</u>

The depreciation charge has been funded by:

	Notes	Dep'n £000
Deferred capital grants released	19	484
Revaluation reserve released	21	347
General income		502
		<u>1,333</u>

## 9. INTEREST PAYABLE

	2006/07 £000	2005/06 £000
Net interest payable on pension asset/liability	-	-
	<u>-</u>	<u>-</u>

Interest payable on borrowings to fund the new campus development is being capitalised as part of the cost of the new buildings.

	2006/07 £000	2005/06 £000
10. TAXATION		
UK Corporation Tax payable	-	-
	<u>-</u>	<u>-</u>

## 11. SURPLUS/(DEFICIT) FOR THE YEAR

As permitted by section 230 of the Companies Act 1985, the income and expenditure account of the University (the holding company) has not been shown separately in these financial statements. The University's historical cost surplus for the year was £555,000 (2005/06: surplus £2,014,000).



## NOTES TO THE ACCOUNTS

12. TANGIBLE ASSETS  
Group and University

	Land and Buildings		Equipment	Total
	Freehold £000	Asset in course of construction £000	£000	£000
<b>Cost or valuation:</b>				
At 1 August 2006	37,102	23,828	4,979	65,909
Additions at cost	-	41,892	455	42,347
Disposals at cost or valuation	-	-	-	-
At 31 July 2007	<u>37,102</u>	<u>65,720</u>	<u>5,434</u>	<u>108,256</u>
<b>Depreciation:</b>				
At 1 August 2006	7,473	-	3,668	11,141
Provided during the year	598	-	735	1,333
Written back on disposals	-	-	-	-
At 31 July 2007	<u>8,071</u>	<u>-</u>	<u>4,403</u>	<u>12,474</u>
<b>Net book amount at 31 July 2007</b>	<b><u>29,031</u></b>	<b><u>65,720</u></b>	<b><u>1,031</u></b>	<b><u>95,782</u></b>
Net book amount at 1 August 2006	<u>29,629</u>	<u>23,828</u>	<u>1,311</u>	<u>54,768</u>
<b>Analysis of net book amount at 31 July 2007</b>				
Financed by capital grant	6,227	13,577	431	20,235
Other	22,804	52,143	600	75,547
	<u>29,031</u>	<u>65,720</u>	<u>1,031</u>	<u>95,782</u>

The historical cost of the group's land & buildings property was £78,026,000, and the historical cost depreciation charge would have been £214,000. Included within the land & buildings total is an amount of £65,720,000, which has been expended in respect of construction and design and related professional fees on the new campus at Craighall. The University relocated to its new campus on a phased basis commencing in June 2007. This process has run into delays and the new main academic building, while fit for occupation, is not and will not be fully functioning until the early part of 2008. The second building that will house the School of Drama and Creative Industries, sports facilities and the Students Union is not expected to be handed over until late 2007 which is some months after the deadline for that to have taken place. Clearly, the delays will lead to additional costs to the University, who will be in discussion with the principal contractor (see note 30) to mitigate the financial effect of this situation.

Land and buildings with a net book amount of £24,153,000 and a cost of £7,090,000 have been funded from Treasury sources. The University has obtained the agreement of the Scottish Funding Council that, when these assets are sold, the University may retain and reinvest the proceeds of sale in accordance with the Financial Memorandum with the Scottish Funding Council and associated guidance notes on disposal of such assets and retention of the related proceeds.

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



## NOTES TO THE ACCOUNTS

## 13. 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 2006 and 31 July 2007 £
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

	2007 £000	2006 £000
At market value:		
Fixed and variable interest stocks	-	174
UK equities	-	435
Cash awaiting investment	-	22
	<u>-</u>	<u>631</u>

## 14. ENDOWMENT ASSET INVESTMENTS

	Group and University	
	2006/07 £000	2005/06 £000
Balance at 1 August 2006	1,624	1,215
Additions	25	488
Disposals	(977)	(59)
Net appreciation less depreciation	(51)	27
Transfer to Income & Expenditure account	(12)	(47)
Balance at 31 July 2007	<u>609</u>	<u>1,624</u>
	2006 £000	2006 £000
Fixed interest stocks	17	42
Equities (listed)	87	364
Property	72	74
Due from general fund	398	1,029
Other debtors	-	84
Bank balances	35	31
Total endowment asset investments at market value	<u>609</u>	<u>1,624</u>
Fixed interest stocks and equities at cost	-	346
Land and property at cost	86	86



## NOTES TO THE ACCOUNTS

15. DEBTORS	Group		University	
	2007 £000	2006 £000	2007 £000	2006 £000
Amounts falling due within one year:				
Trade debtors	397	522	365	472
Prepayments and accrued income	679	627	661	615
Amounts owed by subsidiaries	-	-	146	849
	<u>1,076</u>	<u>1,149</u>	<u>1,172</u>	<u>1,936</u>

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	Group		University	
	2007 £000	2006 £000	2007 £000	2006 £000
Bank overdraft	436	-	436	-
Trade creditors	561	277	548	275
Social security and other taxation payable	10	373	7	358
Accruals and deferred income	3,998	3,633	3,970	3,605
Capital expenditure creditors	2,613	2,367	2,613	2,367
Amount due to endowment funds	59	1,029	59	1,029
Amounts owed to subsidiaries	-	-	-	-
	<u>7,677</u>	<u>7,679</u>	<u>7,633</u>	<u>7,634</u>

The capital expenditure creditors relate to the quantity surveyors' valuation of work completed at the Craighall campus development but not invoiced at 31 July.

17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	Group		University	
	2007 £000	2006 £000	2007 £000	2006 £000
Bank loan	37,285	13,071	37,285	13,071
Capital retention creditor	1,618	449	1,618	449
	<u>38,903</u>	<u>13,520</u>	<u>38,903</u>	<u>13,520</u>

The bank loan represents the amount drawn down under a sterling revolving facility with Barclays Bank plc, for the purpose of financing capital expenditure incurred in connection with the relocation of the University's campuses to the Craighall site. The revolving loan is due to be repaid no later than 31 July 2012 but, subject to the University continuing to comply with the terms of the loan agreement, Barclays Bank has no right to demand repayment before that date. The total amount available under the revolving facility commitment is £55 million. The loan is secured over the University's campus at Corstorphine and a portion of the new campus site at Craighall.



## NOTES TO THE ACCOUNTS

## 18. PROVISIONS FOR LIABILITIES AND CHARGES

**Group and University**  
 Unfunded Pensions  
 £000

At 1 August 2006	3,664
Utilised in year	(211)
Unutilised provision reversed	(8)
At 31 July 2007	3,445

## 19. DEFERRED CAPITAL GRANTS

In respect of fixed assets funded by SFC, Scottish Enterprise Edinburgh & Lothian (SEEL) and the Scottish Arts Council (SAC).

<b>Group and University</b>	SFC £000	SEEL £000	SAC £000	Other £000	TOTAL £000
At 1 August 2006					
Land	1,281	-	-	-	1,281
Buildings	4,688	543	815	-	6,046
Equipment	326	-	-	181	507
Total	6,295	543	815	181	7,834
Receivable during year:					
Buildings	9,518	827	-	2,310	12,655
Equipment	230	-	-	-	230
Total	9,748	827	-	2,310	12,885
Released to income and expenditure account:					
Land	32	-	-	-	32
Buildings	110	5	30	-	145
Equipment	247	-	-	60	307
Total	389	5	30	60	484
At 31 July 2007					
Land	1,249	-	-	-	1,249
Buildings	14,096	1,365	785	2,310	18,556
Equipment	309	-	-	121	430
Total	15,654	1,365	785	2,431	20,235



## NOTES TO THE ACCOUNTS

## 20. ENDOWMENTS

	Group and University		
	Specific £000	General £000	Total £000
At 1 August 2006	1,154	470	1,624
Appreciation/(depreciation) of endowment asset investments	4	(55)	(51)
Additions	1,365	-	1,365
Disposals	(2,310)	-	(2,310)
Income for year	23	18	41
Expenditure for year	(42)	(5)	(47)
Transfer to Income & Expenditure account	-	(13)	(13)
At 31 July 2007	<u>194</u>	<u>415</u>	<u>609</u>
Representing			
Prize funds	126	-	126
Other funds	68	415	483
	<u>194</u>	<u>415</u>	<u>609</u>

## 21. REVALUATION RESERVE

	Group	University
	£000	£000
Revaluations		
At 1 August 2006	25,300	23,623
(Deficit) on investment revaluation	(48)	(48)
At 31 July 2007	<u>25,252</u>	<u>23,575</u>
Contribution to depreciation		
At 1 August 2006	4,216	4,216
Released in year (note 22)	347	347
At 31 July 2007	<u>4,563</u>	<u>4,563</u>
Net revaluation amount		
<b>At 31 July 2007</b>	<b><u>20,689</u></b>	<b><u>19,012</u></b>
At 1 August 2006	<u>21,084</u>	<u>19,407</u>



## NOTES TO THE ACCOUNTS

## 22. GENERAL RESERVE

	Note	Group		University	
		2007 £000	2006 £000	2007 £000	2006 £000
At 1 August		450	(2,672)	2,245	(858)
Surplus/(deficit) for year		562	836	555	2,334
Transferred from revaluation reserve	21	347	347	347	347
Transferred from revaluation reserve in respect of Duke Street disposal		-	1,517	-	-
Actuarial gain in pension scheme		3,438	422	3,438	422
<b>At 31 July</b>		<b>4,797</b>	<b>450</b>	<b>6,585</b>	<b>2,245</b>
Represented by:-					
<b>Income and expenditure account</b>					
At 1 August		5,353	2,676	7,148	4,490
Surplus/(deficit) for the year		562	836	555	2,334
Transfer (to)/from pension reserve		(288)	(23)	(288)	(23)
Transferred from revaluation reserve	21	347	347	347	347
Transferred from revaluation reserve in respect of Duke Street disposal		-	1,517	-	-
<b>At 31 July</b>		<b>5,974</b>	<b>5,353</b>	<b>7,762</b>	<b>7,148</b>
<b>Pension reserve</b>					
At 1 August		(4,903)	(5,348)	(4,903)	(5,348)
Current service cost		(1,068)	(928)	(1,068)	(928)
Employer contributions		873	875	873	875
Contributions in respect of unfunded benefits		47	47	47	47
Past service costs		281	-	281	-
Net return on assets		155	29	155	29
Transfer from/(to) income & expenditure account		288	23	288	23
Actuarial gains/ (losses)		3,438	422	3,438	422
<b>At 31 July</b>		<b>(1,177)</b>	<b>(4,903)</b>	<b>(1,177)</b>	<b>(4,903)</b>
<b>Summary</b>					
Income and expenditure account		5,974	5,353	7,762	7,148
Pensions reserve		(1,177)	(4,903)	(1,177)	(4,903)
<b>At 31 July</b>		<b>4,797</b>	<b>450</b>	<b>6,585</b>	<b>2,245</b>

## 23. LEASE OBLIGATIONS

At 31 July the University had annual commitments under non-cancellable operating leases for buildings and equipment as follows:-

	Group & University	
	2007	2006
	£000	£000
Expiring within one year	112	-
Expiring between two and five years	-	112
<b>Total</b>	<b>112</b>	<b>112</b>



## NOTES TO THE ACCOUNTS

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

	2006/07 £000	2005/06 £000
Surplus before tax	542	807
Pension costs less contributions payable	(133)	6
Depreciation (note 12)	1,333	1,387
Deferred capital grants released to income (note 19)	(484)	(547)
Investment income and interest receivable	(286)	(151)
Interest payable	-	-
(Gain) on disposal of tangible fixed assets	-	(226)
(Gain) on sale of investments	(72)	(6)
Write off irrecoverable loss on subsidiary	(6)	-
Decrease/(increase) in stocks	2	15
Decrease/(increase) in operating debtors	108	809
(Decrease)/increase in operating creditors	(684)	(657)
Increase in provisions	(219)	15
	<hr/>	<hr/>
Net cash inflow from operating activities	101	1,452
	<hr/>	<hr/>

### 25. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2006/07 £000	2005/06 £000
Net income/(expenditure) from endowments	626	(397)
Investment income received	29	26
Other interest received	102	96
	<hr/>	<hr/>
	757	(275)
	<hr/>	<hr/>

### 26. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2006/07 £000	2005/06 £000
Tangible assets acquired (other than leased equipment)	40,932	17,677
Investments acquired	24	68
Endowment asset investments acquired	25	81
	<hr/>	<hr/>
Total fixed and endowment asset investments acquired	40,981	17,826
	<hr/>	<hr/>
Receipts from disposal of tangible fixed assets	-	(4,247)
Receipts from sales of investments	(657)	(80)
Receipts from sales of endowment assets	(360)	(60)
Deferred capital grants received	(12,885)	(1,371)
Endowments received less disposals	944	(411)
	<hr/>	<hr/>
	28,023	11,657
	<hr/>	<hr/>



## NOTES TO THE ACCOUNTS

## 27. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 August 2006 £000	Cash Flows £000	At 31 July 2007 £000
Cash at bank and in hand	2,560	(2,519)	41
Endowment assets	31	4	35
Bank overdrafts	-	(436)	(436)
	<u>2,591</u>	<u>(2,951)</u>	<u>(360)</u>
Debt due within one year	-	-	-
Debt due after one year	(13,071)	(24,214)	(37,285)
	<u>(10,480)</u>	<u>(27,165)</u>	<u>(37,645)</u>

## 28. PENSIONS AND SIMILAR OBLIGATIONS

The University's employees belong to three principal pension schemes, the Scottish Teachers Superannuation Scheme (STSS), the Local Government Pension Scheme (LGPS) and the Universities Superannuation Scheme (USS). The total pension cost for the year was £1,585,000 (2005/06: £2,071,000).

## Group and University

	Year ended 31 July 2007 £000	Year ended 31 July 2006 £000
The total pension charge is analysed as follows:-		
Lothian Pension Fund (LGPS)	622	1,182
Scottish Teachers Superannuation Scheme	860	803
Universities Superannuation Scheme	103	86
	<u>1,585</u>	<u>2,071</u>



## NOTES TO THE ACCOUNTS

## 28. PENSIONS AND SIMILAR OBLIGATIONS (continued)

## A ) Local Government Pension Scheme (LGPS)

The Lothian Pension Fund is a funded defined benefit scheme, with the assets held in a separate trustee-administered fund. The agreed contribution rates for future years are 15.8% for employers and 6% for employees. The following information is based upon a full actuarial valuation of the fund at 31 March 2005 updated to 31 July 2007 by a qualified independent actuary

Assumptions at	31 July 2007	31 July 2006	31 July 2005
Rate of price inflation	3.3%	3.1%	2.8%
Discount rate	5.8%	5.1%	5.0%
Salary increase rate	4.8%	4.6%	4.3%
Pension increase rate	3.3%	3.1%	2.8%

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 2007	Value at 31 July 2007 £000	Long term rate of return at 31 July 2006	Value at 31 July 2006 £000	Long term rate of return at 31 July 2005	Value at 31 July 2005 £000
Equities	8.0%	16,213	7.7%	14,918	7.3%	13,845
Bonds	5.2%	1,586	4.7%	1,122	4.7%	1,077
Property	6.0%	2,794	5.7%	2,083	5.4%	1,693
Cash	5.1%	1,332	4.8%	606	4.5%	476
<b>Total</b>	<b>7.4%</b>	<b>21,925</b>	<b>7.2%</b>	<b>18,729</b>	<b>6.9%</b>	<b>17,091</b>

	Value at 31 July 2007 £000	Value at 31 July 2006 £000	Value at 31 July 2005 £000
<b>Estimated employer assets (A)</b>	21,925	18,729	17,091
Present value of scheme liabilities	(22,303)	(22,791)	(21,563)
Present value of unfunded liabilities	(799)	(841)	(876)
<b>Total value of liabilities (B)</b>	<b>(23,102)</b>	<b>(23,632)</b>	<b>(22,439)</b>
<b>Net pension liability (A) – (B)</b>	<b>(1,177)</b>	<b>(4,903)</b>	<b>(5,348)</b>

Analysis of the amount charged to staff costs (note 6):-

	Year ended 31 July 2007 £000	Year ended 31 July 2006 £000
Current service cost	1,068	928
Past service cost	(281)	-
<b>Total operating charge</b>	<b>787</b>	<b>928</b>

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

	Year ended 31 July 2007	Year ended 31 July 2006
Expected return on employer assets	(1,376)	(1,094)
Interest on pension scheme liabilities	1,221	1,065
<b>Net return</b>	<b>(155)</b>	<b>(29)</b>

<b>Net income and expenditure account charge</b>	<b>632</b>	<b>899</b>
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## NOTES TO THE ACCOUNTS

### 28. PENSIONS AND SIMILAR OBLIGATIONS (continued)

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

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

	Year ended 31 July 2007	Year ended 31 July 2006
	£000	£000
Actual return less expected return on pension scheme assets	1,050	1,289
Experience gains and losses arising on the scheme liabilities	10	51
Changes in financial assumptions underlying the present value of the scheme liabilities	2,378	(918)
<b>Actuarial gain recognised in STRGL</b>	<b>3,438</b>	<b>422</b>

In order to address the scheme deficit, employer contribution rates have been increased in recent years. 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. Recent changes to the scheme regulations have removed the "rule of 85", thereby reducing the ability of staff within the pension scheme to retire early whilst remaining eligible for an unreduced pension.

History of experience gains and losses:-	Year ended 31 July 2007	Year ended 31 July 2006	Year ended 31 July 2005	Year ended 31 July 2004	Year ended 31 July 2003
	£000	£000	£000	£000	£000
Difference between the expected and actual return on assets	1,050	1,289	1,968	313	349
Value of assets	21,925	18,729	17,091	13,267	11,452
<b>Percentage of assets</b>	<b>4.8%</b>	<b>6.9%</b>	<b>11.5%</b>	<b>2.4%</b>	<b>3.0%</b>
Experience gains/(losses) on liabilities	10	51	(235)	3	(372)
Present value of liabilities	23,102	22,632	22,439	17,201	15,680
<b>Percentage of the present value of liabilities</b>	<b>0.0%</b>	<b>0.2%</b>	<b>(1.0%)</b>	<b>0.0%</b>	<b>(2.4%)</b>
Actuarial gains/(losses) recognised in the STRGL	3,438	422	(1,181)	293	(2,027)
Present value of liabilities	23,102	22,632	22,439	17,201	15,680
<b>Percentage of the present value of liabilities</b>	<b>14.9%</b>	<b>1.8%</b>	<b>(5.3%)</b>	<b>1.7%</b>	<b>(12.9%)</b>

#### B ) Scottish Teachers' Superannuation Scheme (STSS)

The STSS is an unfunded defined benefit scheme. Contributions on a pay-as-you-go basis are credited to the Exchequer under arrangements governed by the Superannuation Act 1972. A notional asset value is ascribed to the Scheme for the purpose of determining contribution rates. Under the definitions set out in FRS17, the STSS is a multi-employer pension 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 last actuarial valuation of the scheme for which information is available was at 31 March 2001, and used a prospective benefits valuation methodology. The assumptions that have had the most significant effect on the valuation at 31 March 2001 are as follows:

Gross rate of return	7.0%
Rate of return on investments in excess of rate of increases in earnings	2.0%
Rate of return on investments in excess of rate of increases in prices	3.5%
Rate of real earnings growth	1.5%



## NOTES TO THE ACCOUNTS

### 28. PENSIONS AND SIMILAR OBLIGATIONS (continued)

#### C) Universities Superannuation Scheme (USS)

The University participates in the Universities Superannuation Scheme (USS), a multi-employer defined benefit scheme which is externally funded and contracted out of the State Second Pension. The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. The University is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as permitted by FRS17, has accounted for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was at 31 March 2005. The valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation in relation to future service liabilities are as follows:

Investment return – past service	4.5%
Investment return – future service	6.2%
Pensionable salary increases	3.9%
Pension increases	2.9%
Price inflation	2.9%

In relation to the past service liabilities the financial assumptions were derived from the market yields prevailing at the valuation date. At the valuation date, the market value of the assets of the scheme was £21,740 million and the value of past service liabilities was £28,308 million, leaving a deficit of £6,568 million. The assets were therefore sufficient to cover 77% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126% funded at that date; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110% funded; on a buy-out basis (ie, assuming the scheme had discontinued on the valuation date) the assets would have been approximately 74% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 90%.

The University's contribution rate required for future service benefits alone at the date of the valuation was 14.3% of pensionable salaries but the trustee company, on the advice of the actuary, decided to maintain the University's contribution rate at 14% of pensionable salaries. Surpluses or deficits which arise at future valuations may affect the University's future contribution commitment. The next formal triennial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation.

USS is a "last man standing" scheme, so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

#### D) Other pension liabilities

The University has a liability for pension enhancements payable to former members of staff who have taken early retirement in prior years. An actuarial valuation of the amount of this liability was carried out by Hymans Robertson, Actuaries at 31 July 2006, on the basis of valuation prescribed by FRS17. The total provision in respect of this liability is £3,445,000 (2006 : £3,663,000).

### 29. RELATED PARTY TRANSACTIONS

Due to the nature of the University's operations and the composition of the University Court (being drawn from local public and private sector organisations), it is inevitable that transactions will take place with organisations in which a member of the University Court may have an interest. All transactions involving organisations in which a member of the University Court may have an interest are conducted at arm's length, and in accordance with the University Court's financial regulations and normal procurement procedures.



## NOTES TO THE ACCOUNTS

### 30. CAPITAL COMMITMENTS

In December 2005, the University entered into missives for the purchase of a site at Craighall in East Lothian. The University is developing a new campus on this site, and has transferred the existing operations carried out at its Corstorphine, Leith and Gateway campuses to this new site during the autumn of 2007. The total cost of the development, including the construction of student residences, is expected to be around £105 million. This has been funded by a combination of the proceeds of sale of the existing sites, fundraising and additional borrowings. Consent to proceed with the campus relocation project, and to retain the proceeds of disposal of the existing campuses, has been obtained from the Scottish Funding Council.

The University has entered into a contract with Carillion JM Ltd for the construction of the main academic element of the new campus at Craighall. The value of this contract is £47,621,000 excluding VAT (£55,954,000 including VAT). An amount of £44,751,000 excluding VAT (£52,582,000 including VAT) was payable to the contractor as at 31 July 2007, leaving a commitment of £2,870,000 excluding VAT (£3,372,000 including VAT) outstanding at 31 July 2007.

In November 2005, the University agreed a £55 million development facility with Barclays Bank, which will provide sufficient funds to undertake the main academic and related development.

The student residences development at Craighall is being funded through a partnership arrangement with Sanctuary Housing Association (SHA), with the development costs being funded by SHA. The University has entered into an agreement with SHA and the Bank of Scotland (HBOS) whereby, on completion, the residences were sold to a special purpose vehicle company, Queen Margaret Student Solutions Ltd, in which the University, SHA and HBOS each have a one-third controlling interest. QMU has agreed to enter into a nominations commitment, whereby it guarantees to nominate and pay for an agreed proportion of the residential rooms over a 35-year period.

### 31. HARDSHIP AND CHILDCARE FUNDS

	2006/07 £000	2005/06 £000
<b>HARDSHIP FUND</b>		
Balance at 1 August	15	3
Amounts received from Student Awards Agency for Scotland	158	152
Interest earned	1	1
Amount vired in from Childcare Fund	12	3
	186	159
Disbursed to students	(183)	(144)
Balance unspent at 31 July	3	15
<b>CHILDCARE FUND</b>		
Balance at 1 August	102	106
Amounts received from Student Awards Agency for Scotland	44	36
Interest earned	3	2
	149	144
Disbursed to students	(37)	(37)
Amount vired out to Hardship Fund	(12)	(3)
Amount clawed back by Students Awards Agency for Scotland	(98)	-
Administration costs	(2)	(2)
Balance unspent at 31 July	-	102

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.