

Queen Margaret University, Edinburgh

Strategic Report and Financial Statements

for the year ended 31st July 2022

Registered No. SC007335

Scottish Charity No. SC002750

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PRINCIPAL'S REPORT for the year ended 31 July 2022

There is no escaping the fact that these are challenging times for all organisations, nations and individuals, as we live with global instabilities, unprecedented economic and fiscal pressures, the legacy of COVID, and climate change. All that said, this has been a productive year for QMU.

I feel real pride at how my colleagues have adapted and enhanced their ways of working as we have learned to live with COVID. This year has seen a growing buzz on campus, with staff and students re-connecting, sharing ideas and re-building campus life. We now have a hybrid working model for staff that is designed to allow us to achieve the optimum balance of on-campus and remote working, ensuring that the QMU sense of community, which is so central to who we are as a university, is nurtured and sustained.

Overall student numbers for 2021/22 were above target. Whilst our full-time undergraduate EU numbers reduced, reflecting the post-Brexit reduction in EU applications across the sector, this was offset by an increase in undergraduate international, rest of UK and part-time home student numbers. At postgraduate level, we are seeing pleasing growth in international and part-time student numbers. The home market for postgraduate study is more challenging post COVID but we are fortunate in that our courses are well aligned with employer needs. We continue to grow the number of students who study for QMU degrees at partner institutions overseas. We are working hard to ensure that our courses continue to be attractive to the evolving needs of students and employers, and we have been addressing the growing demand for skills-focused microcredentials, for online provision and for 'bite-size' part-time learning.

Significant achievements this year include our success in the 2021 Research Excellence Framework (REF), which is the system for assessing the quality of research in UK universities. Representing the culmination of many years of shared enterprise across the University, REF 2021 results show that QMU is delivering research with a strong reach and impact globally. It confirms that we have world-leading or internationally excellent research in every part of the University, encompassing hugely important themes ranging from refugee integration to transforming healthcare cultures. Gratifyingly, our REF 2021 results have led to an increase of nearly 14% in our Research Excellence Grant from the SFC, which acts as a welcome boost for us as a university committed to research, alongside offering excellent teaching.

In June, we learned that we have moved up in the QS World Rankings, for the third year running. Soon after that, we received our National Student Survey 2022 results. The results showed that our student satisfaction rate is 4.1% above our benchmark and also above the UK average. We performed particularly well in the 'Learning Community' and 'Student Voice' categories of the survey, ranking 5th and 6th in Scotland respectively. In addition, we scored 2nd in Scotland for Students' Union representation of students' academic interests. Together, these results reflect the emphasis that we put upon community at QMU, and the focus in our refreshed Student Experience Strategy on students as partners and on providing a transformative student experience.

This year saw further significant progress towards delivering an innovation park on land adjacent to the campus, in a joint venture with East Lothian Council, and with funding from the Edinburgh and South East Scotland City Region Deal. A design team has been appointed to take forward the delivery of an innovation hub that will form the heart of the park, with construction due to commence in the summer of 2023, and with completion scheduled for 2025.

We also continue to deliver on our social justice agenda. One example is work to create an outdoor learning hub, the plans for which take account of the growing understanding of the value of learning in, and about, the natural environment, in light of the climate emergency, people's experience of COVID, and research on wellbeing. A further example is our expanding suite of partnerships with colleges that allow students on HND courses to progress onto a degree from Queen Margaret University, without having to transfer from their college to the University campus. This important work responds to local demand, addresses skills gaps, and helps to close the educational attainment gap by providing greater equality of opportunity to access higher education. Through these partnerships, we are harnessing the potential of more talented young people from different socio-economic backgrounds across Scotland. A third example is the appointment of Professor Paul Miller as Equality, Diversity and Inclusion (EDI) & Anti-Racism Adviser to the Principal. We recognise that to create an anti-racist culture throughout the university requires concerted, concrete action, not just words. We aim to ensure that not only does every staff member and student, whatever their background, feel they belong and can thrive at QMU, but that through them we can help propagate anti-racism practices across society more widely. A final example is our pioneering Enhanced Learning Tutoring Initiative, which was shortlisted in the Outstanding Contribution to the Local Community category of THE Awards, the 'Oscars of higher education'.

Alongside all this, we continue to build on our work enhancing the employability of our students. We are strengthening our resources in our Student Services area, particularly in the areas of disability and mental health support, to reflect increasing demand from students. We are also introducing a dedicated staffing resource to help us to move forward our sustainability agenda.

Despite the volatility in our operating environment, we have managed to generate a positive result during the year to 31 July 2022. We are managing our resources well and delivering on our mission to act as a force for good. What is more, the relevance of our work to the current and evolving needs of society means that there will be substantial opportunities ahead for us to help shape a better world through education, research and innovation.

Sir Paul Grice, FRSE, FAcSS
Principal and Vice-Chancellor
November 2022

STRATEGIC REPORT

Status

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

Scope of the financial statements

The financial statements presented on pages 20 to 43 comprise the consolidated results of the University and its subsidiary company, QMU Enterprises Limited. QMU Enterprises Limited undertakes commercial consultancy work, utilising the expertise of the University's academic and technical staff, and also deals with vacation letting of the University's student accommodation. The University holds 50% of the issued share capital of Edinburgh Innovation Park Joint Venture Company Limited. Due to the limited activity to date within the joint venture company, the results have not been consolidated into these financial statements. Further information is provided in note 13 to the financial statements.

The financial statements have been prepared on a going concern basis in accordance with Financial Reporting Standard 102 (FRS 102) and the Statement of Recommended Practice – Accounting for Further and Higher Education 2019 (SORP 2019), with the Accounts Direction issued by the Scottish Funding Council (SFC) and with the United Kingdom Companies Acts. Information on the process which has been undertaken to inform the decision to prepare the financial statements on a going concern basis is set out in section (A) in the statement of principal accounting policies.

Development of the strategic plan

The University's strategic plan remains rooted in the University's core values, and sets out a number of strategic goals, along with targets to be achieved by the end of the current plan period in 2025. The plan is supported by a more detailed delivery plan, which sets out specific actions, along with timescales and owners, which will enable the achievement of the strategic plan goals and targets. A key element of the plan remains the inclusion of key performance indicators which the University Court uses to monitor progress towards the achievement of the goals set out in the plan (both financial and non-financial). The University also has processes to manage the risks which might inhibit this achievement.

Results for the year

The Group's consolidated results for the year to 31 July 2022 are summarised as follows:-

	2021/22	2020/21
	£million	£million
Total income	48.3	44.0
Total expenditure	(48.7)	(45.9)
(Deficit) for the year	(0.4)	(1.9)
Actuarial gain in respect of pension schemes	24.1	12.7
Unrealised surplus /(deficit) on revaluation of land and buildings	14.5	(0.1)
Total comprehensive income /(expenditure) for the year	38.2	10.7

The main changes in the underlying outturn position compared to 2020/21 were:-

- An increase of £2.0 million in income from tuition fees and education contracts, including additional students on new programmes, and an increase in international student numbers;
- An increase in SFC grants of £0.9 million. This included additional funding for the third year of the new initial teacher education programme and for the second year of the new paramedic science programme;
- A reduction of £200k in income from research grants and contracts;
- An increase in other income of £1.6 million, as summer school business returned close to pre-COVID levels;
- An increase of £2.2 million in staff costs, of which £1.5 million related to the movement in pension provision adjustments, with the remaining increase reflecting salary increases;
- An increase of £1.0 million in other operating expenses, largely relating to an increase in expenditure on long term maintenance following the hiatus in activity during the COVID pandemic.

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

QMU Enterprises Ltd generated a profit of £157,000 (2020/21: £28,000), which was passed to the University under deed of covenant.

STRATEGIC REPORT (continued)

Cash flows and liquidity

The result for the year, adjusted for the effect of non-cash items and interest, was a net cash inflow of £7.9 million on operating activities (2020/21, £9.5 million inflow). Overall cash balances reduced by £0.4 million (2020/21; £6.8 million increase), after making an additional loan repayment of £5 million during the year. Unrestricted cash balances at 31 July 2022 of £15.2 million (2021: £15.3 million) represented 136 days' expenditure (2021: 136 days).

Management of principal risks and uncertainties

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

- Funding from government through the Scottish Funding Council (SFC), the University's main source of income, is likely to suffer from further real-terms reductions over the next few years as a consequence of spending cuts throughout the public sector.
- Recruitment of international and EU students continues to be challenging, largely as a result of difficulties faced by international students in obtaining visas to study in the UK, although this may be mitigated to some extent by the reinstatement of the post-study work visa.
- Pressure on staff costs will continue to build, both in terms of pay awards (where the University continues to participate in the UK-wide national negotiating framework) and also in terms of the cost of employers' pension contributions.
- Inflationary pressures on other costs, particularly energy costs, will prove challenging in light of real terms reductions in funding.
- The ability to attract and retain staff, particularly in some specialist areas, is becoming more difficult throughout the economy, including in the University sector.

The identification and management of risks is firmly embedded within the University's structure and processes. An updated risk management strategy was adopted by the University Court in 2021. The institutional corporate risk register, which includes a description of actions undertaken to mitigate risks, is formally reviewed by the Senior Leadership Team and the Audit & Risk Committee as well as being discussed by the University Court. The Court also undertakes, from time to time, an exercise to agree its appetite for risk, and to ensure that residual risks, after the application of mitigating actions, sit within the agreed tolerance.

Financial sustainability and going concern

The University Court has assessed the financial position of the University for the year ended 31 July 2022. The assessment period considered is the period to 31 July 2024 and further details of this assessment can be found on page 24. The University Court has assessed a number of factors as set out below and has concluded that there is an expectation that the University has adequate financial resources to continue to operate for the foreseeable future.

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

- At the balance sheet date the University had net current assets of £7.6 million.
- Cash balances at 31 July 2022 amounted to £15.2 million. The University had liquid reserves (cash and investments) as at 31 July 2022 equivalent to approximately four and a half months' operating cash requirements.
- In the year to 31 July 2022 the University made an underlying surplus of £3.2 million before pension provision adjustments, and generated positive net cash from operating activities of £7.9 million. The University cash flow forecast shows an increasing cash trajectory over the period to 31 July 2024, and no additional financing will be required to meet its liabilities.
- At the balance sheet date the University had external financing liabilities of £21.2 million, of which £18.5 million is payable to Barclays Bank plc with the remainder being payable to the Scottish Funding Council. As set out in Note 16, the University intends to enter into discussions around refinancing the element of the Barclays loan which will remain outstanding at the scheduled repayment date of 17 December 2024.
- All bank loan covenants were complied with for the year ended 31 July 2022.
- In relation to future years, we have considered headroom against covenants across a number of scenarios over the period to 31 July 2024. We consider that, on the basis of current forecasts, there is sufficient headroom on all bank covenants under each of the scenarios considered, on the basis that the University would take appropriate mitigating action. This would take the form of reducing discretionary expenditure by an amount which would allow all bank covenants to be met.
- Taking account of the business risks facing the University, we believe that the University and the group are well placed to continue to manage their business risks successfully.

STRATEGIC REPORT (continued)

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

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

The second indicator has been adapted from the basket of financial indicators recommended by the FSSG as it is a more appropriate measure for the University, given its relatively high level of borrowings as a proportion of its turnover. The targets are also set at a level which will allow compliance with banking covenants. The results of the annual review undertaken in November 2022, based on a rolling five-year period, were as follows:-

Indicator	Target	Average
EBITDA	12%	13.3%
Net cash flow from operating activities less interest payable as a percentage of turnover	6%	10.8%

The *EBITDA* average percentage remains above the five-year average target, reflecting the positive result for 2021/22. The figure shows an increase from the July 2021 figure of 12.5%, reflecting the positive outcome for 2021/22. The "*Net cash flow from operating activities less interest payable as a percentage of turnover*" indicator remains well above target, reflecting the University's relatively strong cash position.

Borrowings

Borrowings at 31 July 2022 amounted to £21.2 million (31 July 2021, £27.7 million). Of this amount, £18.5 million related to a secured loan facility with Barclays Bank plc taken out to fund the campus development at Musselburgh, and £2.7 million related to an unsecured loan from the Scottish Funding Council under the Financial Transactions scheme.

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's last funding valuation took place as at 31 March 2020 and set contributions from 1 April 2021. The funding valuation showed a positive position with an overall funding position of 106%. The Fund trustees have, in recent years, applied increases to the level of employers' and employees' contributions to the scheme in order to maintain the strong funding position. The University's share of the fund for 31 July 2022 is a net asset of £8.6 million (31 July 2021: £21.0 million liability). The University has not recognised the pension asset at 31 July 2022 in accordance with the accounting policy adopted as set out in accounting policy (D).

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

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

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

STRATEGIC REPORT (continued)

Social inclusion

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

Student satisfaction

The University participates in the National Student Survey (NSS). The 2022 institutional results show an overall satisfaction score of 76.4%. Along with most other universities, this score has fallen, from 79.0% in 2021, as a result of the continuing disruption to the student experience caused by COVID-19. However, the score remains above the UK average score, and 4.1% above benchmark.

Graduate employment

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

Environmental issues

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

Future developments

In order to take advantage of further opportunities as they arise, the University is continuing to focus on ensuring that its academic, infrastructure, digital, human resources and financial strategies are closely aligned. Whilst operations have been affected by the COVID-19 pandemic over the last two years, the University continues to make good progress in a number of areas which will ensure that it is able to achieve the objectives set out in its strategic plan during the period through to 2025. This will, in turn, allow the University to continue to generate an adequate level of cash in the short to medium term and to maintain an adequate level of reserves. The Court carries out regular monitoring of the University's financial sustainability, as described above.

The funding environment for Scottish higher education institutions was already challenging, with sector-level evidence that funding for publicly funded teaching and research was insufficient to cover the full cost of delivery. Whilst additional non-recurrent funding was made available to mitigate the financial losses arising from COVID, indications from the most recent Scottish Government spending review are that funding settlements for the next five years are likely to be at a flat-cash level, which represents a significant reduction in real terms. At the same time, universities will face significant pressures on costs, particularly staff costs and utilities costs. In order to address this position, the University has recently developed a five-year proposition, covering the period to 2027. This proposition involves targeting developments in three main areas, as follows:-

- Increasing postgraduate student numbers;
- Developing new online provision at scale; and
- Growth in transnational education partnerships.

The long term financial health of the University will continue to depend upon its ability to grow and diversify its income base, and to control costs, whilst making available sufficient funds needed as an upfront investment to enable the growth areas noted above to take place.

On behalf of the University Court

Pamela Woodburn
Chair
30 November 2022

DIRECTORS' REPORT

Section 172(1) Statement - Companies Act 2006

This statement sets out how the Directors of Queen Margaret University, Edinburgh, have applied and complied with Section 172(1) of the Companies Act 2006 in accordance with the Companies (Miscellaneous Reporting) Regulations 2018. The University Court, as Directors of the company limited by guarantee, must, as those of all UK companies, act in accordance with a set of general duties set out in section 172 of the Companies Act 2006 (the Act). The Board of Directors consider, both individually and together, that they have acted in the way, in good faith, that would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 31 July 2022.

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

Employee involvement

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

Student involvement

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

Directors' and officers' liability insurance

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

Members' liability

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

Employment of disabled persons

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

Creditors' payment policy

Unless special terms are agreed, it is the University's policy to pay invoices 30 days from the date of the invoice (in accordance with the CBI prompt payment code). In agreements negotiated with suppliers, the University endeavours to include and abide by specific payment terms. At 31 July 2022, trade creditors represented 38 days of relevant expenditure (2021: 31 days). Interest paid under the Late Payment of Commercial Debts (Interest) Act 1998 was £nil (2020/21: £nil).

Going Concern

The University's activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report, which also includes information on cash flows and borrowing facilities, and the University Court's assessment of going concern. Further information on the assessment of going concern is also set out in the section on accounting policies on page 24. Demand from students for the University's courses remains strong. Consequently, the University Court believes that the University is well placed to manage its business risks successfully.

DIRECTORS' REPORT (continued)

MEMBERSHIP OF THE UNIVERSITY COURT

Name	Appointed/retired date	Attendance Record	Interests / occupation
Pamela Woodburn (Chair)	Appointed 1 April 2021	4/5	Manager, Christian Aid
Elaine Acaster, OBE (Vice-Chair)	Appointed 28 June 2017 Retired 30 September 2022	5/5	Former Vice Principal, Royal Veterinary College, University of London
Jennifer Ansett	Appointed 22 June 2022	0/1	Nominated Trade Union Member – Support Staff
Janet Archer	Appointed 1 October 2022	0/0	Chief Executive, Edinburgh Printmakers
Carolyn Bell	Appointed 1 October 2016 Retired 30 September 2022	4/5	Solicitor
Professor Richard Butt	Appointed 1 September 2016	4/5	Deputy Principal, <i>Ex Officio</i>
Julie Churchill	Appointed 8 March 2021	3/5	Staff Member, Appointed by Senate
Colin Cox	Appointed 1 October 2019 Retired 1 November 2021	0/1	Nominated Trade Union Member – Support Staff
Karen Cullen	Appointed 1 June 2019	3/5	Elected Support Staff Member
Sophie Cunningham	Appointed 10 June 2021 Retired 9 June 2022	3/4	Student Vice-President
Amy Cutt	Appointed 1 December 2021 Retired 5 May 2022	2/3	Nominated Trade Union Member – Support Staff
Louise Ford	Appointed 10 June 2022	1/1	Student President – Student Activities
Dr Maria Giatsi-Clausen	Appointed 1 October 2019	1/5	Nominated Trade Union Member – Academic Staff
Sir Paul Grice	Appointed 1 October 2019	5/5	Principal & Vice-Chancellor, <i>Ex Officio</i>
Cynthia Guthrie	Appointed 1 December 2015 Retired 30 November 2021	1/1	Joint Managing Director, Guthrie Group Limited
Professor John Harper	Appointed 1 December 2020	5/5	Former Principal & Vice-Chancellor, Robert Gordon University
Steven Hendry	Appointed 1 June 2021	5/5	Director, Capital Markets Team, CBRE
Dr Arturo Langa	Appointed 1 October 2019	5/5	Consultant Psychiatrist, NHS Lanarkshire
Francis Lennon, OBE	Appointed 1 October 2016 Retired 30 September 2022	2/5	Former Head Teacher
Ken McGarrity	Appointed 1 October 2016 Retired 30 September 2022	4/5	Former Finance Director, Nairn's Oatcakes
Melanie Moreland	Appointed 1 January 2018	3/5	Senior Manager/Delivery Manager, Royal Bank of Scotland
Aasiyah Patankar	Appointed 10 June 2021	5/5	Student President – Academic Life
Robert Pattullo	Appointed 24 May 2018	4/5	Start-up Company Mentor, Former Vice-Chair Citizens' Advice Edinburgh
Sarah Phillips	Appointed 28 June 2017	2/5	Solicitor
Elizabeth Porter	Appointed 1 October 2019	5/5	Chartered Management Accountant
Dr Eurig Scandrett	Appointed 1 December 2016	4/5	Elected Academic Staff Member
Dr Andrew Scott	Appointed 28 June 2017	5/5	Director, Scottish Government
Garvin Sealy	Appointed 1 June 2021	5/5	Co-Director, Equal-Tree Community Interest Company
Carol Sinclair	Appointed 1 October 2022	0/0	Director, Sinclair Wilson, Arts & Business Consultancy
Guy Smith	Appointed 1 October 2022	0/0	Finance Director

DIRECTORS' REPORT (continued)

Membership of University Court Committees during the year to 31 July 2022

Audit and Risk Committee

Name	Role		Attendance record
Robert Pattullo	Convener		4/4
Elaine Acaster			2/4
Carolyn Bell			3/4
Elizabeth Porter			4/4

Finance & Estates Committee

Name	Role		Attendance record
Ken McGarrity	Convener		5/6
Professor Richard Butt			5/6
Sir Paul Grice			6/6
Cynthia Guthrie		Retired 30 November 2021	2/2
Professor John Harper			6/6
Steven Hendry		Appointed 1 October 2021	5/5
Dr Andrew Scott			5/6

Nominations Committee

Name	Role		Attendance record
Pamela Woodburn	Convener		4/4
Elaine Acaster			3/4
Karen Cullen			3/4
Sir Paul Grice			4/4
Aasiyah Patankar			3/4
Robert Pattullo			4/4

Senior Management Remuneration Committee

Name	Role		Attendance record
Elaine Acaster	Convener		2/2
Francis Lennon			2/2
Sarah Phillips			2/2
Pamela Woodburn			2/2

Disclosure of information to auditors

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

On behalf of the University Court

Pamela Woodburn
Chair
30 November 2022

CORPORATE GOVERNANCE STATEMENT

Summary of the University's Structure of Corporate Governance

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

The University is not required to comply with the UK Corporate Governance Code. However, it has reported on its Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code that it considers to be relevant to the company and best practice, and it has done so throughout the year ended 31 July 2022. The University Court also considers that the University is compliant with the principles of the Scottish Code of Good Higher Education Governance 2017.

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

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

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

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

The University Court is satisfied that there is an ongoing process for identifying, evaluating and managing the University's significant risks, which has been in place throughout the year ended 31 July 2022 and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the University Court, and accords with the Turnbull guidance, as applicable to the higher education sector. The University has in place a business continuity and risk management and policy framework for the whole organisation. In addition, each of the key areas within the institution, including the Senior Leadership Team (SLT), has in place local procedures detailing action to be taken in response to a potential or actual disaster. Risk management is a standing item on the agenda of the Senior Leadership Team and the Audit & Risk Committee, and regular reports are made to the University Court.

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

CORPORATE GOVERNANCE STATEMENT (continued)

To assist members in the performance of their duties, members of the University Court were offered, and attended a number of training and development opportunities during 2021-22. In line with necessary restrictions in place during the Coronavirus Emergency, members attended training and development sessions on-line. Members also received presentations on strategic themes relevant to the work of the University at each Court meeting. Training and development opportunities offered to Court members in 2021/22 included:

- Advance HE Induction to Higher Education Governance for New Governors, 13 October 2021
- Advance HE Audit and Risk Committees, 20 October 2021
- New Governors of Scottish HEIs, 21 October 2021.
- Azets Non-Executive Directors Forum: 'Resilience, Recovery and Rebuilding in the Public Sector', 30 June 2022.

New members also received a formal induction session supported by the Court Members' Handbook, published originally in October 2016 and updated annually. The current version may be found at: <https://www.gmu.ac.uk/media/aepmyw5r/court-members-handbook.pdf>.

In accordance with the Financial Memorandum with the Scottish Funding Council (SFC), the University Court is responsible for setting the strategic direction of the University, the approval of overall institutional budgets and major developments and the receipt of regular reports from executive officers on the day to day operation of its business and its subsidiary companies.

The University Court has five Ordinary meetings per annum, and has provided delegated authority to a number of Committees, as set out below. Three out of the five Ordinary meetings during the period of review were held virtually in response to prevailing COVID restrictions. The Office of the Scottish Charity Regulator has recognised that holding meetings virtually is a good option, and stated that charities might hold their meetings in this way, even where the governing document is silent on the matter. The University Court Standing Orders are silent on the matter. In line with good governance, the discussion and decisions of the University Court have been recorded in the form of confirmed minutes approved by members.

University Court members engaged additionally in detailed discussion at two Strategy Days, the first of which, held on 29 September 2021, had a hybrid delivery, with members attending remotely and on campus. The second event on 25 March 2022 was held fully on campus. These events provided members with the opportunity to discuss and agree matters of strategic importance under the following topics:

- 'Delivering the University Strategic Plan';
- 'Future Proofing: securing our place in the external landscape';
- 'Social Justice: supporting our communities';
- 'A Perspective to 2027';
- 'Delivering Financial Sustainability and Student Population Growth';
- 'The Path to Net Zero: The Leadership Challenge'.

Key matters relating to the University's response to the Coronavirus Emergency, including matters concerned with the maintenance of academic delivery, protection of academic standards, and wellbeing and other support for students and staff, remained firmly on the Court agenda.

Each of the standing Committees of the University Court is formally constituted with published terms of reference, and with membership comprised mainly of lay members of the University Court, one of whom is the Convener. Lay members are represented on the Equality and Diversity Committee and the Health and Safety Committee, both of which report to the University Court.

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

CORPORATE GOVERNANCE STATEMENT (continued)

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

The Audit and Risk Committee and the Finance and Estates Committee held a joint meeting in November 2021 at which the 2020/21 year-end financial statements were presented for discussion and agreement.

The Nominations Committee makes recommendations to the University Court on appointment to vacancies in the University Court lay membership, and on appointment to vacancies in the standing committees of the Court in line with each respective committee's skills matrix. The Committee met four times during the period of review, and conducted one round of lay member appointments.

The Senior Management Remuneration Committee develops, on behalf of the University Court, senior management remuneration policies and processes for final determination by the University Court. The Committee determines and reviews the salaries and terms and conditions of the Principal and members of the Senior Leadership Team in line with agreed policies, and in accordance with good corporate and higher education governance. The Principal attends meetings of the Committee, but is not a member, and does not participate in any review by the Committee of their own remuneration or reward package. The Committee also reviews arrangements in place for determining the salaries of those senior staff with Professorial title. The Committee met formally in November 2021, and agreed the application of the National Annual Pay Award to members of the Senior Leadership Team in fulfilment of Paragraph 5.8 of the Senior Management Remuneration Review Policy. No applications for incremental awards were received.

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

Higher Education Governance (Scotland) Act 2016

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

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

The University Court completed a full mapping of its alignment with the requirements of the revised Scottish Code of Good Higher Education Governance on its publication in 2017. The one outstanding matter arising from that mapping was concluded on 1 October 2019, with the publication of the amended Queen Margaret University Order of Council which established rules that formed the basis of the Chair of Court election in January 2021. In the opinion of the University Court, the University complied with the principles and provisions of the 2017 Scottish Code of Good Higher Education Governance throughout the year to 31 July 2022.

Review of Effectiveness

The University Court has established as a Key Performance Indicator of the effectiveness of its performance, and of its Committees, 'Full alignment with the Scottish Code of Good Higher Education Governance'. Throughout 2021-22, the University Court reviewed a full suite of Key Performance Indicators (KPIs) that it has established as part of its wider assessment of its effectiveness.

As part of a process of enhancing the effectiveness of its governance, and in fulfilment of the requirements of the Scottish Code of Good HE Governance ('the Scottish Code'), the University Court commissioned an externally facilitated review of the effectiveness of its governance arrangements view in autumn 2021.

The Scottish Code of Good Higher Education Governance requires that governing bodies keep their effectiveness under review, as set out under paragraph 49 of the Code:

CORPORATE GOVERNANCE STATEMENT (continued)

Paragraph 49

'The governing body is expected to review its own effectiveness each year and to undertake an externally facilitated evaluation of its own effectiveness and that of its committees, including size and composition of membership, at least every five years'.

The previous externally facilitated Court Effectiveness Review was conducted in Session 2015-16, with further review planned for academic Session 2020-21. The review timeline was adjusted by one year to accommodate the significant impact of the Covid-19 pandemic on University business. This delay coincided with the election and appointment of a Chair, the arrangements for which were conducted during Session 2020-21. Pamela Woodburn took up the role of elected Chair on 1 April 2021.

The review was conducted by a Court Steering Group, whose work was facilitated by two Advance HE reviewers. The review remit focussed on:

- The quality and nature of the assurance Court receives and provides regarding academic outcomes and the student experience, through its relationship and interfaces with Senate.
- The effectiveness of Court and its governance structures/ways of working/composition in assuring strategic developments as the university enters into a phase of considerable investment and enhancement'.

The overarching judgement arising from the review is that the University Court has in place effective arrangements to ensure that it meets its key obligations, as set out in the University Court Statement of Primary Responsibilities.

The Review report identifies examples of best practice in governance, as well as a number of areas for potential development and enhancement, expressed as recommendations for approval by the University Court. Areas of positive practice evidenced in the review were: Court Culture/Academic Assurance/Assuring strategic developments/ Equality, diversity and inclusion/ Induction, development and review/Structure and processes. The University's governance arrangements are suggested as benefitting from a strong and efficient secretariat.

Recommendations arising from the review are inter-related, and collectively, provide areas for development suggested as enhancing existing governance arrangements. The recommendations respond to aspects of current governance where Court and Senate members expressed less confidence in their understanding of practice, either through survey responses, and/or through focus group participation. Importantly, the recommendations are suggested as building on established good practice, rather than addressing any significant deficiencies. The Review Report and Action plan is published in full at the following link: <https://www.gmu.ac.uk/about-the-university/university-court/court-effectiveness-review-2022/>

Equality and Diversity

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

Embedding equality and diversity in our governance structures and in our strategic planning process is critical to mainstreaming equality and diversity, as is defining responsibilities, setting performance measures and monitoring progress against those measures. The University's Mainstreaming Report and Equality Outcomes, which sets out progress on mainstreaming equality and establishes a number of outcomes for the period 2021-25, was approved by the Court in April 2021. The report can be found at: <https://www.gmu.ac.uk/about-the-university/equality-and-diversity/mainstreaming-report-equality-outcomes-and-employee-information/>

The University is committed to ensuring that the University Court (Court), Senate and all committees and decision making bodies of the University are representative of its community. In particular, the University is committed to achieving the following goals and targets:

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

CORPORATE GOVERNANCE STATEMENT (continued)

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

At the time of writing, the gender balance of membership of Court sits at 52% female and 48% male. Equality Monitoring has been undertaken in respect of all Court members since 2017/18.

System of Internal Financial Control

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

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

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

On behalf of the University Court

Pamela Woodburn
Chair

Sir Paul Grice
Principal & Vice-Chancellor

30 November 2022

RESPONSIBILITIES OF THE UNIVERSITY COURT

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

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

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

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

The University Court has taken reasonable steps to:

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

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

Opinion

We have audited the financial statements of the Queen Margaret University ('the institution') and its subsidiary (the 'group') for the year ended 31 July 2022 which comprise the Statements of Comprehensive Income and Expenditure, Statements of Changes in Reserves, Balance Sheet, Consolidated Statement of Cashflows and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the group's state of affairs as at 31 July 2022 and of the group and parent institution's income and expenditure, recognised gains and losses, changes in reserves, and statement of cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, and relevant legislation; and
- have been prepared in accordance with the requirements of the Companies Act 2006, Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of the Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the University Court's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the University's ability to continue as a going concern for the period to 31 July 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the University's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report set out on pages 1-16, other than the financial statements and our auditor's report thereon. The University Court is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

Opinion on other matters prescribed by the Scottish Funding Council's Financial Memorandum with Higher Education Institutions

In our opinion, based on the work undertaken in the course of the audit, in all material respects:

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

Matters on which we are required to report by exception

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

- the information given in the Strategic Report is inconsistent in any material respect with the financial statements; or
- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the University Court

As explained more fully in the Statement of the University Court's Responsibilities set out on page 16, the University Court is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the University Court determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the University and management.

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

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and parent institution and determined that the most significant are FRS 102 and Statement of Recommended Practice for Further and Higher Education.
- We understood how the group and parent institution is complying with those frameworks by making enquiries of management and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of the Court minutes and papers provided to the Audit and Risk Committee at a Group level, as well as consideration of the results of our audit procedures to either corroborate or provide contrary evidence which was then followed up.
- We have considered the culture of honesty and ethical behaviour of management and whether a strong emphasis is placed on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. We assessed the susceptibility of the group and parent institution's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where they considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage financial performance. Where this risk was considered higher, we performed audit procedures to address the risk of fraud and management override. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- We also considered the oversight of those charged with governance (i.e., considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage earnings in order to influence the perceptions of stakeholders as to the entity's performance and profitability).
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved enquiries of management, those charged with governance and those responsible for legal and compliance procedures; journal entry testing with a focus on journals indicating large or unusual transactions based on our understanding of the business; review of Court minutes to identify any non-compliance with laws and regulations, and inspection of any correspondence between the University and Scottish Funding Council.

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

Use of our report

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

Stephen Reid, Senior Statutory Auditor
On behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
5 December 2022

STATEMENTS OF COMPREHENSIVE INCOME AND EXPENDITURE
For the Year Ended 31 July 2022

		Consolidated		University	
		2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000
INCOME					
Tuition fees and education contracts	1	17,103	15,058	17,103	15,058
Scottish Funding Council grants	2	21,606	20,707	21,606	20,707
Research grants and contracts	3	2,771	2,986	2,349	2,809
Other income	4	6,396	4,799	6,163	4,473
Investment income	5	72	15	71	15
Donations and endowments	6	369	466	369	466
Total income		<u>48,317</u>	<u>44,031</u>	<u>47,661</u>	<u>43,528</u>
EXPENDITURE					
Staff costs	7	29,216	26,968	28,979	26,793
Other operating expenses	10	13,329	12,298	12,910	11,970
Depreciation, amortisation	11,12	4,812	5,071	4,812	5,071
Interest and other finance costs	8	1,366	1,545	1,366	1,545
Total expenditure		<u>48,723</u>	<u>45,882</u>	<u>48,067</u>	<u>45,379</u>
(Deficit) for the year		(406)	(1,851)	(406)	(1,851)
Unrealised surplus/(deficit) on revaluation of land and buildings		14,456	(145)	14,456	(145)
Actuarial gain in respect of pension schemes		24,163	12,743	24,163	12,743
Total comprehensive income/(expenditure) for the year		<u>38,213</u>	<u>10,747</u>	<u>38,213</u>	<u>10,747</u>

Represented by:-

Endowment comprehensive income for the year	171	227	171	227
Unrestricted comprehensive income for the year	23,586	10,665	23,586	10,665
Revaluation reserve comprehensive income for the year	14,456	(145)	14,456	(145)
	<u>38,213</u>	<u>10,747</u>	<u>38,213</u>	<u>10,747</u>

All items of income and expenditure relate to continuing activities.

The accompanying notes and policies on pages 24 to 43 form part of these financial statements

STATEMENTS OF CHANGES IN RESERVES
For the Year Ended 31 July 2022

Consolidated and University
£000s

	Income & Expenditure Account		Revaluation reserve	Total
	Endowments	Unrestricted		
Balance at 1 August 2020	821	(4,448)	66,580	62,953
Surplus /(deficit) from the income & expenditure statement	227	10,665	-	10,892
Revaluation (loss)	-	-	(145)	(145)
Balance at 1 August 2021	1,048	6,217	66,435	73,700
Surplus /(deficit) from the income and expenditure statement	171	23,586	-	23,757
Revaluation gain	-	-	14,456	14,456
Balance at 31 July 2022	1,219	29,803	80,891	111,913

BALANCE SHEETS AS AT 31 JULY 2022

	Note	Consolidated		University	
		2022 £000	Restated 2021 £000	2022 £000	Restated 2021 £000
NON-CURRENT ASSETS					
Intangible assets	11	529	-	529	-
Tangible assets	12	133,563	123,629	133,563	123,629
Investments	13	-	-	-	-
		<u>134,092</u>	<u>123,629</u>	<u>134,092</u>	<u>123,629</u>
CURRENT ASSETS					
Trade and other receivables	14	1,722	1,755	2,007	1,783
Cash at bank and in hand		15,244	15,607	14,670	15,380
		<u>16,966</u>	<u>17,362</u>	<u>16,677</u>	<u>17,163</u>
CREDITORS: amounts falling due within one year	15	(9,934)	(10,423)	(9,645)	(10,224)
NET CURRENT ASSETS / (LIABILITIES)		<u>7,032</u>	<u>6,939</u>	<u>7,032</u>	<u>6,939</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>141,124</u>	<u>130,568</u>	<u>141,124</u>	<u>130,568</u>
CREDITORS : amounts falling due after more than one year	16	(25,296)	(32,455)	(25,296)	(32,455)
PROVISIONS FOR LIABILITIES AND CHARGES	17	(3,915)	(24,413)	(3,915)	(24,413)
NET ASSETS		<u>111,913</u>	<u>73,700</u>	<u>111,913</u>	<u>73,700</u>
RESTRICTED RESERVES					
Income & expenditure reserve – endowment reserve	18	1,219	1,048	1,219	1,048
UNRESTRICTED RESERVES					
Income & expenditure reserve – unrestricted		29,803	6,217	29,803	6,217
Revaluation reserve	19	80,891	66,435	80,891	66,435
TOTAL RESERVES		<u>111,913</u>	<u>73,700</u>	<u>111,913</u>	<u>73,700</u>

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

The financial statements on pages 20 to 43 were approved by the University Court on 30 November 2022 and signed on its behalf by:

Pamela Woodburn
Chair

Sir Paul Grice
Principal and Vice-Chancellor

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 July 2022

	Note	2021/22 £000	2020/21 £000
Cash flows from operating activities			
(Deficit) for the year		(406)	(1,851)
Adjustments for non-cash items			
Depreciation, amortisation	11,12	4,812	5,071
Deferred capital grants released		(649)	(649)
Pension costs less contributions payable		3,073	2,825
(Increase) /decrease in operating debtors		33	767
Increase / (decrease) in operating creditors		(471)	2,496
Increase / (decrease) in pension provision		592	(242)
Adjustments for investing or financing activities			
Investment income and interest receivable		(72)	(15)
Interest payable		1,000	1,090
		<hr/>	<hr/>
Net cash inflow / (outflow) from operating activities		7,912	9,492
		<hr/>	<hr/>
Cash flows from investing activities			
Investment income		72	15
Payments made to acquire fixed assets		(819)	(90)
		<hr/>	<hr/>
		(747)	(75)
		<hr/>	<hr/>
Cash flows from financing activities			
Interest paid		(1,000)	(1,090)
Repayments of amounts borrowed		(6,528)	(4,326)
New unsecured loans in year		-	2,834
		<hr/>	<hr/>
		(7,528)	(2,582)
		<hr/>	<hr/>
(Decrease)/increase in cash and cash equivalents in the year		(363)	6,835
		<hr/>	<hr/>
Cash and cash equivalents at beginning of the year		15,607	8,772
Cash and cash equivalents at end of the year		15,244	15,607
		<hr/>	<hr/>
		(363)	6,835
		<hr/>	<hr/>

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

The financial statements have been prepared on a going concern basis. The University and Group's activities, financial performance and financial position, together with factors likely to affect its future development and performance, are described in the Strategic Report. Emerging and principal risks and uncertainties facing the University are described on page 5. At 31 July 2022, the University held gross cash of £15.2 million, excluding restricted funds held on behalf of SAAS (2021 gross cash of £15.3 million), while net current assets were £7.6 million. At 31 October 2022 the University held £14.8 million of gross cash.

The University's external borrowings at 31 July 2022 totalled £21.2 million. Of this amount, £18.5 million related to a secured loan facility with Barclays Bank plc taken out to fund the campus development at Musselburgh, and £2.7 million related to an unsecured loan from the Scottish Funding Council under the Financial Transactions scheme. The University's secured borrowings from Barclays Bank plc, as described above are subject to covenant terms. The University was fully compliant with those covenant terms during the year to 31 July 2022. A further £3 million of borrowings will be repayable during the going concern period to 31 July 2024.

Cash flow forecasts were prepared for the period up to 31 July 2024 to support management's assessment of going concern. The institution's base case scenario for the period forecast compliance with all loan covenants to 31 July 2024.

The greatest risk to the future financial sustainability of the University is that of further real terms (and possibly also cash-terms) reductions in the level of grant funding receivable from the Scottish Funding Council. This may be further exacerbated as a result of wider geopolitical and economic uncertainties. The University has built up a significant cash buffer which will allow it to navigate the difficult financial waters which lie ahead over the next few years, whilst it has at the same time managed to make a significant reduction in its level of borrowings.

Management has modelled a plausible downside scenario based on a number of adverse scenarios taking place in financial year 2023/24, including a cash-terms reduction in SFC grants, planned tuition fee growth not taking place, and inflation remaining much higher than forecast. In this scenario, the University retains liquidity headroom and compliance with covenants through the going concern period with both plausible and available mitigating actions being undertaken. These mitigations include, firstly, reducing uncommitted future spend on discretionary capital and maintenance programmes and, only if necessary, reducing staff numbers.

The University is continuing to monitor its forecast compliance with covenants. Management is confident that there are sufficient mitigating actions within the University's control that would offset any reduced income to ensure compliance with future loan covenants, before the requirement for further renegotiation of covenants with its lender should plausible worst case scenarios occur.

After reviewing these forecasts, the University Court is of the opinion that, taking account of severe but plausible downsides, the Group and parent University will have sufficient funds to meet their liabilities as they fall due over the period to 31 July 2024.

Based on the assessment outlined above, the University has concluded that it has adequate resources to continue in operation for the period to 31 July 2024, and for this reason the going concern basis continues to be adopted when preparing the financial statements.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

(B) Basis of consolidation

The consolidated financial statements include the University and its subsidiary undertaking for the financial year ended 31 July 2022. Details of QMU Enterprises are given in note 13. Intra-group transactions are eliminated on consolidation. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated.

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

The University and East Lothian Council each hold one share in Edinburgh Innovation Park Joint Venture Company Limited, with a nominal value of £1 per share. This is a joint venture between the parties, which was set up during the year with the purpose of constructing and managing the Edinburgh Innovation Park, which is to be developed on land adjacent to the University campus. As the University does not have overall control over the joint venture company, the results have not been consolidated into these financial statements.

(C) Recognition of income

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

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

Investment income is credited to income on a receivable basis.

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

Grant funding

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

Donations and endowments

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

Capital grants

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

(D) Accounting for retirement benefits

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

Local Government Pension Scheme

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

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

(D) Accounting for retirement benefits (continued)

Scottish Teachers' Pension Scheme

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

Universities Superannuation Scheme

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

Enhanced pension benefits

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

(E) Employment benefits

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

(F) Leases and hire purchase contracts

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

(G) Foreign currency translations

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

(H) Fixed assets

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

Land and Buildings are stated at cost or valuation. Land and Buildings are externally valued at least every five years. The basis of valuation is depreciated replacement cost. In the period between external valuations the University Court reviews the value of the assets. Where the value of the Land and Buildings is considered to be below cost, either by external valuation or as a result of the Court's review, and this is considered to be a permanent diminution in value, the difference is charged to the income & expenditure account as an impairment charge.

The heritable properties comprising Queen Margaret University's property estate were valued as at 31 July 2022 by an external valuer, Gerald Eve LLP, a regulated firm of Chartered Surveyors.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

(H) Fixed assets (continued)

The valuation was prepared in accordance with the requirements of the RICS Valuation - Global Standards 2022 and the national standards and guidance set out in the UK National Supplement (November 2018), the International Valuation Standards, Financial Reporting Standard 102 and the 2019 Statement of Recommended Practice 'Accounting for Further and Higher Education'. The valuation was undertaken on a Fair Value basis. The valuations of specialised properties were derived using the Depreciated Replacement Cost (DRC) method, whilst the student residences were valued as a trading entity using a Discounted Cash Flow (DCF).

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

Heritable land is not depreciated. Heritable buildings are depreciated on a straight line basis over their expected useful lives of between 10 and 50 years. No depreciation is charged on assets in the course of construction. Equipment, including computer equipment and software, costing less than £10,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised and depreciated on a straight line basis over periods ranging from three to five years, being its expected useful life.

(I) Investments

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

(J) Cash and cash equivalents

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

(K) Provisions, contingent liabilities and contingent assets

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

A contingent liability arises from a past event that imposes upon the University a possible obligation, the existence of which will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University. A contingent liability may also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or where the amount of the obligation cannot be measured reliably. A contingent asset arises where an event has taken place which entitles the University to a possible asset, the existence of which will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University. Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed by way of a note.

(L) Taxation

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

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

(M) Reserves

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

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

(N) Judgements and key sources of estimation uncertainty

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

Pension and other post-employment benefits

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

In relation specifically to the Universities Superannuation Scheme, FRS 102 makes the distinction between a group plan and a multi-employer scheme. A group plan consists of a collection of entities under common control typically with a sponsoring employer. A multi-employer scheme is a scheme for entities not under common control and represents (typically) an industry-wide scheme such as the Universities Superannuation Scheme. The accounting for a multi-employer scheme where the employer has entered into an agreement with the scheme that determines how the employer will fund a deficit results in the recognition of a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and the resulting expense charged through the income and expenditure account in accordance with section 28 of FRS 102. The University Court members are satisfied that the Universities Superannuation Scheme meets the definition of a multi-employer scheme and the University has therefore recognised the discounted fair value of the contractual contributions under the recovery plan in existence at the date of approving these financial statements.

In relation to the Local Government Pension Scheme, in accordance with the accounting policy adopted by the University, where the calculation at the year-end date results in a net asset, recognition of the asset is limited to the extent to which the University is able to recover its share of the surplus, either through reduced contributions in the future or through refunds from the scheme. The University assessed the recoverability of the asset on this basis and determined that it was appropriate that the surplus at 31 July 2022 was not recognised in line with the requirements of FRS 102.

Valuation of land and buildings

The heritable property comprising the University's property estate was valued at 31 July 2022 by an external valuer, Gerald Eve LLP, a regulated firm of Chartered Surveyors. The valuation was prepared in accordance with the requirements of the RICS Valuation - Global Standards (January 2022 edition) and the national standards and guidance set out in the UK national supplement (November 2018), the International Valuation Standards, Financial Reporting Standard 102 and the 2019 Statement of Recommended Practice 'Accounting for Further and Higher Education'.

The part of the University campus comprising the student accommodation was valued as a trading entity using a discounted cash flow (DCF), on the assumption of a continuation of the existing use. This exercise resulted in a revaluation gain of £0.600 million, which has been reflected in the financial statements. The valuation took into account the requirement to undertake an ongoing programme of maintenance works on the ability to generate income from summer letting activities.

The valuation of the part of the University campus comprising the academic buildings was derived using the Depreciated Replacement Cost (DRC) method). This exercise resulted in a revaluation gain of £9.589 million, which has been reflected in the financial statements.

Management has considered the basis used to undertake both valuations and has satisfied itself that the basis, and the resulting valuations, are reasonable. The net revaluation gain arising out of the two valuations was £10.189 million.

Effect if actual results differ from assumptions

The value of all of the University's land and buildings subject to revaluation was £122.7 million prior to the 2022 revaluation. The impact of a 5% change in valuation would be £6.1 million, either resulting in an increase or a decrease in the University's revaluation reserve or an additional impairment charge.

NOTES TO THE FINANCIAL STATEMENTS

	2021/22 £000	2020/21 £000
1. TUITION FEES AND EDUCATION CONTRACTS (consolidated and university)		
Scotland home domicile fees	7,735	6,504
European Union domicile fees	2,163	2,564
Rest of UK domicile fees	1,971	1,560
Non-European Union domicile fees	3,545	2,473
Other non-credit bearing course fees and discounts	(576)	(355)
Education contracts	2,265	2,312
	17,103	15,058
2. SCOTTISH FUNDING COUNCIL GRANTS (consolidated and university)		
Recurrent grant		
General Fund – Teaching	16,308	15,762
General Fund – Research and Innovation	1,846	1,865
Specific grants		
Other grants – COVID support grants	-	1,110
Capital maintenance grants	972	468
Ring-fenced grants funded by Scottish Government	1,831	853
Deferred capital grants released (note16)	649	649
	21,606	20,707

3. RESEARCH GRANTS & CONTRACTS

	Consolidated		University	
	2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000
Research councils	205	210	205	210
UK based charities	177	137	177	118
UK government and health authorities	1,784	2,225	1,376	2,067
European funding	400	325	386	325
Other grants & contracts	205	89	205	89
	2,771	2,986	2,349	2,809

4. OTHER OPERATING INCOME

	Consolidated		University	
	2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000
Residences, catering and conferences	5,028	3,541	4,789	3,495
Other services rendered	216	387	65	79
Sports centre income	182	59	182	59
Coronavirus Job Retention Scheme income	-	91	-	91
Other income	970	721	1,127	749
	6,396	4,799	6,163	4,473

NOTES TO THE FINANCIAL STATEMENTS

5. INVESTMENT INCOME

	Consolidated		University	
	2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000
Other investment income	72	15	71	15
	72	15	71	15

6. DONATIONS AND ENDOWMENTS (consolidated and university)

	2021/22 £000	2020/21 £000
Unrestricted donations	369	466
	369	466

7. STAFF COSTS

	Consolidated		University	
	2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000
Staff costs				
Wages and salaries	19,555	18,800	19,318	18,628
Social security costs	2,081	1,919	2,081	1,917
Movement on USS provision	1,117	(29)	1,117	(29)
Other pension costs	6,463	6,278	6,463	6,277
	29,216	26,968	28,979	26,793

Emoluments of the Principal and Vice-Chancellor

	2021/22 £000	2020/21 £000
Sir Paul Grice		
Salary *	203	176*
Employers' pension contributions	-	-
In lieu of employers' pension contribution	35	35
Total	238	211

* Sir Paul accepted a 10% reduction in salary throughout the year to 31 July 2021 in recognition of the additional financial pressures faced by the University in relation to COVID-19

The head of the University's basic salary is 5.65 times the median pay of staff (2020/21 : 5.16 times), where the median pay is calculated on a full-time equivalent basis for the salaries paid by the University to its staff.

NOTES TO THE FINANCIAL STATEMENTS

7. STAFF COSTS (continued)

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the University: this comprises the Senior Leadership Team. The total compensation for the year ended 31 July 2022 (including any employers' pension contributions) was £967,263 (year ended 31 July 2021, £922,575).

University Court members

The University Court members are the trustees for charitable law purposes and are also the directors of the company limited by guarantee for company law purposes. Other than the Chair, University Court members receive no remuneration in respect of their duties as members of the University Court. A number of members of the University Court, including the Principal and Vice-Chancellor, receive a salary in respect of their employment with the University. Detail of such remuneration is set out below.

	2021/22	2020/21 restated
	£000	£000
Directors' emoluments (including pension contributions)		
Fees for services as members of University Court	15	5
Emoluments (i.e. salaries as members of staff)	574	541
Contributions paid to pension schemes	78	74
Total	667	620

These figures relate to 9 members of staff, including the Principal (2020/21 : 8)

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

	2021/22 Number	2020/21 Number
Senior post holders		
£100,001 to £110,000	2	2
£120,001 to £130,000	1	1
£210,001 to £220,000	-	1
£230,001 to £240,000	1	-

No compensation payments were made to senior post holders in respect loss of office (2020/21: Nil).

	2021/22 FTE number	2020/21 FTE number
Average full time equivalent (FTE) staff numbers by major category: (Consolidated and university)		
Academic schools	205	202
Academic services	61	53
Research grants & contracts	32	31
Residences, catering & conferences	17	15
Premises	27	25
Administration & central services	115	114
	457	440

8. INTEREST PAYABLE AND OTHER FINANCE COSTS

	Consolidated		University	
	2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000
Loan interest	1,000	1,090	1,000	1,090
Net charge on pension scheme	366	455	366	455
	1,366	1,545	1,366	1,545

NOTES TO THE FINANCIAL STATEMENTS

9. ANALYSIS OF TOTAL EXPENDITURE BY ACTIVITY

	Consolidated		University	
	2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000
Academic schools	15,471	14,827	15,471	14,827
Academic services	4,893	4,351	4,893	4,351
Research grants & contracts	2,771	2,335	2,348	2,265
Other services rendered	216	495	65	79
Residences, catering and conferences	3,138	2,444	3,075	2,444
Premises	8,023	6,949	8,023	6,949
Administration & central services	9,655	8,832	9,636	8,815
Other expenses	4,556	5,649	4,556	5,649
Total per income and expenditure account	48,723	45,882	48,067	45,379

10. OTHER OPERATING EXPENSES

	Consolidated		University	
	2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000
External auditors – audit fees	139	101	123	87
External auditors – non-audit fees	3	-	-	-
Internal audit	44	22	44	22
Grants to QMU Students' Union	274	261	274	261
Other expenses	12,869	11,914	12,469	11,600
	13,329	12,298	12,910	11,970

11. INTANGIBLE ASSETS

Consolidated and University

Cost or valuation:

At 1 August 2021

Additions at cost

At 31 July 2022

Amortisation:

At 1 August 2021

Provided during the year

At 31 July 2022

Net book amount at 31 July 2022

Net book amount at 1 August 2021

£000
-
595
<u>595</u>
-
66
<u>66</u>
529
-

NOTES TO THE FINANCIAL STATEMENTS

12. TANGIBLE ASSETS

Consolidated and University

	Freehold land & Buildings	Fixtures, fittings & equipment	TOTAL
	£000	£000	£000
Cost or valuation:			
At 1 August 2021	122,736	11,991	134,727
Disposals at cost	-	(3,190)	(3,190)
Additions at cost	-	224	224
Revaluation of buildings	10,189	-	10,189
At 31 July 2022	<u>132,925</u>	<u>9,025</u>	<u>141,950</u>
Depreciation:			
At 1 August 2021	-	11,098	11,098
Written off on disposal	-	(3,190)	(3,190)
Written back due to revaluation	(4,267)	-	(4,267)
Provided during the year	4,267	479	4,746
At 31 July 2022	<u>-</u>	<u>8,387</u>	<u>8,387</u>
Net book amount at 31 July 2022	<u>132,925</u>	<u>638</u>	<u>133,563</u>
Net book amount at 1 August 2021	<u>122,736</u>	<u>893</u>	<u>123,629</u>
Analysis of net book amount at 31 July 2022			
Financed by capital grant	6,260	-	6,260
Other	126,665	638	127,303
	<u>132,925</u>	<u>735</u>	<u>133,563</u>

The heritable properties comprising Queen Margaret University's property estate were valued as at 31 July 2022 by an external valuer, Gerald Eve LLP, a regulated firm of Chartered Surveyors. The valuation was prepared in accordance with the requirements of the RICS Valuation - Global Standards 2022 and the national standards and guidance set out in the UK national supplement (November 2018), the International Valuation Standards, Financial Reporting Standard 102 and the 2019 Statement of Recommended Practice 'Accounting for Further and Higher Education'. The valuations of specialised properties were derived using the Depreciated Replacement Cost (DRC) method, whilst the student residences were valued as a trading entity using a Discounted Cash Flow (DCF).

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

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

NOTES TO THE FINANCIAL STATEMENTS

13. INVESTMENTS

Name of undertaking	Country of incorporation and registration	Description of shares held	Proportion of nominal value of shares held	Cost at 31 July 2022	Cost at 1 August 2021
			%	£	£
QMU Enterprises Ltd	Scotland	Ordinary £1 shares	100	100	100
Edinburgh Innovation Park Joint Venture Company Ltd	Scotland	Ordinary £1 shares	50	1	-
				101	100

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

On 12 April 2022, the University entered into a joint venture agreement with East Lothian Council, with the purpose of constructing and managing the Edinburgh Innovation Park, which is to be developed on land adjacent to the University campus. The University and East Lothian Council each hold one share in Edinburgh Innovation Park Joint Venture Company, with a nominal value of £1 per share.

14. TRADE AND OTHER RECEIVABLES

Amounts falling due within one year:

	Consolidated		University	
	2022 £000	2021 £000	2022 £000	2021 £000
Trade debtors	661	658	573	454
Prepayments and accrued income	936	1,097	934	1,086
Amounts due from subsidiary company	-	-	375	243
Amounts due from joint venture	125	-	125	-
	1,722	1,755	2,007	1,783

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Consolidated		University	
	2022 £000	Restated 2021 £000	2022 £000	Restated 2021 £000
Secured loans (see note 16)	1,343	1,343	1,343	1,343
Trade creditors	1,433	1,220	1,431	1,206
Social security and other taxation payable	678	587	678	587
Accruals and deferred income	5,663	6,438	5,376	6,253
Unsecured loans	168	186	168	186
Deferred capital grants (see note 16)	649	649	649	649
	9,934	10,423	9,645	10,224

NOTES TO THE FINANCIAL STATEMENTS

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

	Consolidated and University	
	2022	Restated 2021
	£000	£000
Secured loans	17,151	23,493
Unsecured loans	2,534	2,702
Deferred capital grants	5,611	6,260
	25,296	32,455
Analysis of secured loans:-		
Due between one and two years	1,343	1,343
Due between two and five years	15,808	22,150
Due in five years or more	-	-
Total due after more than one year	17,151	23,493
Due within one year (note 15)	1,343	1,343
Total secured loans	18,494	24,836
Analysis of unsecured loans:-		
Due between one and two years	168	168
Due between two and five years	474	493
Due in five years or more	1,892	2,041
Total due after more than one year	2,534	2,702
Due within one year (note 15)	168	186
Total unsecured loans	2,702	2,888
Analysis of Deferred capital grants:-		
Due between one and two years	649	649
Due between two and five years	1,947	1,947
Due in five years or more	3,015	3,664
Total due after more than one year	5,611	6,260
Due within one year (note 15)	649	649
Total Deferred capital grants	6,260	6,909

The secured loan from Barclays is repayable in full on 17 December 2024. The loan is therefore shown as being fully repayable within five years. It is the University's intention that a significant proportion of this loan will be refinanced at the repayment date. The loan is secured over part of the campus site at Musselburgh. The University has entered into a fixed-rate arrangement in order to protect itself against any significant fluctuations in interest rates. The terms of this arrangement are commercially confidential.

The unsecured loans have been provided by the Scottish Funding Council. £2.647 million has been provided under the Financial Transactions scheme. This loan is unsecured, and is repayable in equal quarterly instalments over the period to 31 March 2040. The remaining loan of £54k is repayable over a period of three years.

Deferred capital grants due to be released within one year are included within Creditors : amounts falling due within one year. The deferred capital grants figure at 31 July 2021 has been restated to reflect this.

NOTES TO THE FINANCIAL STATEMENTS

17. PROVISIONS FOR LIABILITIES
Consolidated and UniversityPensions
£'000

	Obligation to fund deficit on USS Pension	Pension enhancements	Defined benefit obligations LGPS	Total pensions provisions
	£'000	£'000	£'000	£'000
At 1 August 2021	719	2,604	21,090	24,413
Utilised in year	(45)	(203)	-	(248)
Transfer (to)/from income & expenditure account	1,168	(328)	(21,090)	(20,250)
At 31 July 2022	<u>1,842</u>	<u>2,073</u>	<u>-</u>	<u>3,915</u>

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

The University also has a liability for pension enhancements payable to former members of staff who have taken early retirement in prior years. An actuarial valuation of the amount of this liability was carried out by Hymans Robertson, Actuaries, at 31 July 2022, on the basis of valuation prescribed by FRS 102, and using the same set of assumptions as are set out in note 21 in relation to the valuation of the Local Government Pension Scheme.

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

18. ENDOWMENT RESERVES

Consolidated and University

	Restricted Expendable £000	Restricted Permanent £000	Restricted Total £000
Balance at 1 August 2021	1,001	47	1,048
Income for year	369	-	369
Expenditure for year	(198)	-	(198)
At 31 July 2022	<u>1,172</u>	<u>47</u>	<u>1,219</u>
Represented by:			
Capital value	-	35	35
Accumulated income	1,172	12	1,184
	<u>1,172</u>	<u>47</u>	<u>1,219</u>

NOTES TO THE FINANCIAL STATEMENTS

19. REVALUATION RESERVE

	Consolidated and University	
	2022 £000	2021 £000
At 1 August	66,435	66,580
Revaluation (losses) /gains	14,456	(145)
Release to general reserve	-	-
At 31 July	80,891	66,435

20. CONSOLIDATED RECONCILIATION OF NET DEBT

Consolidated and University

	£000
Net debt at 1 August 2021	12,117
Decrease in cash and bank balances	363
Secured loans repaid	(6,341)
Unsecured loans taken out	-
Unsecured loans repaid	(187)
Net debt at 31 July 2022	5,952

Analysis of net debt

	Consolidated and University	
	2022 £000	2021 £000
Cash at bank and in hand	(15,244)	(15,607)
<i>Borrowings : amounts falling due within one year</i>		
Secured loans	1,343	1,343
Unsecured loans	168	186
	1,511	1,529
<i>Borrowings : amounts falling due after more than one year</i>		
Secured loans	17,151	23,493
Unsecured loans	2,534	2,702
	19,685	26,195
Net debt as at 31 July	5,952	12,117

NOTES TO THE FINANCIAL STATEMENTS

21. PENSIONS AND SIMILAR OBLIGATIONS

The University's employees belong to three principal pension schemes, the Scottish Teachers Pension Scheme (STPS), the Local Government Pension Scheme (LGPS) and the Universities Superannuation Scheme (USS).

	Consolidated and University	
	Year ended 31 July 2022	Year ended 31 July 2021
	£000	£000
<i>The total pension charge is analysed as follows:-</i>		
Lothian Pension Fund (LGPS)	4,192	3,860
Scottish Teachers' Pension Scheme	1,882	2,059
Universities Superannuation Scheme	1,506	330
	7,580	6,249

Estimated employers' pension contributions for the year to 31 July 2023 are £4,342,000. Actual employers' pension contributions in the year to 31 July 2022 were £4,033,000.

A) Local Government Pension Scheme (LGPS)

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

The following information is based upon a full actuarial valuation of the fund at 31 March 2020 updated to 31 July 2022 by a qualified independent actuary, Hymans Robertson LLP.

Assumptions at	31 July 2022	31 July 2021	31 July 2020
Pension increase rate	2.75%	2.85%	2.20%
Salary increase rate	3.25%	3.35%	3.90%
Discount rate	3.50%	1.60%	1.40%

The fund is valued every three years by professionally qualified independent actuaries using the projected unit credit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the scheme actuary reviews the progress of the scheme. The actuary has indicated that the resources of the scheme are likely, in the normal course of events, to be sufficient to meet the liabilities as they fall due at the level specified by the scheme regulations. The currently agreed employer's contribution rate for the University is 20.4%.

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 assumptions noted above relate to expectations across the duration of the scheme and therefore are based on longer-term estimations.

The mortality assumptions used to value the Obligations in the University's Closing Position are different to those used to value the Obligations in the University's Opening Position. A commutation allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service. All other demographic assumptions are consistent with those used for the latest formal funding valuation, and include sufficient allowance for future improvements in mortality rates. Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a. for both males and females. The assumed life expectations on retirement at age 65 are:-

	31 July 2022 No. of years	31 July 2021 No. of years
<i>Current pensioners</i>		
Males	20.3	20.5
Females	23.1	23.3
<i>Future pensioners (assumed aged 45 at last formal revaluation date)</i>		
Males	21.6	21.9
Females	25.0	25.2

NOTES TO THE FINANCIAL STATEMENTS

21. PENSIONS AND SIMILAR OBLIGATIONS (continued)

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

Analysis of the amount shown in the balance sheet

	Value at 31 July 2022 £000	Value at 31 July 2021 £000	Value at 31 July 2020 £000	Value at 31 July 2019 £000	Value at 31 July 2018 £000
Estimated employer assets (A)	74,429	69,844	60,469	63,223	57,343
Present value of scheme liabilities	(65,388)	(90,361)	(90,773)	(77,851)	(62,495)
Present value of unfunded liabilities	(470)	(573)	(680)	(697)	(671)
Total value of liabilities (B)	(65,858)	(90,934)	(91,453)	(78,548)	(63,166)
Net pension asset/(liability) (A) – (B)	* 8,571	(21,090)	(30,984)	(15,325)	(5,823)

* In accordance with the accounting policy adopted by the University, where the calculation above results in a net asset, recognition of the asset is limited to the extent to which the University is able to recover its share of the surplus, either through reduced contributions in the future or through refunds from the scheme. The University assessed the recoverability of the asset on this basis and determined that it was appropriate that the surplus at 31 July 2022 was not recognised, in line with the requirements of FRS 102.

Analysis of movements in the present value of the scheme liabilities

	31 July 2022 £000	31 July 2021 £000
Opening defined benefit obligation	90,934	91,453
Current service cost	4,192	3,837
Interest cost on defined benefit obligation	1,479	1,298
Contributions by members	471	453
Actuarial losses / (gains)	(29,652)	(4,491)
Unfunded benefits paid	(43)	(43)
Benefits paid	(1,523)	(1,573)
Closing defined benefit obligation	65,858	90,934

Analysis of movement in the market value of the scheme assets

	31 July 2022 £000	31 July 2021 £000
Opening fair value of employer assets	69,844	60,469
Expected return on assets	3,082	8,696
Other experience	-	(444)
Contributions by members	471	453
Contributions by employer	1,435	1,395
Contributions in respect of unfunded benefits	43	43
Interest income on plan assets	1,120	848
Unfunded benefits paid	(43)	(43)
Benefits paid	(1,523)	(1,573)
Closing fair value of employer assets	74,429	69,844

The significant move from a net pension liability at 31 July 2021 to a net asset at 31 July 2022 is due mainly to an increase in the net discount rate used to measure the university's obligations, along with the use of a more up-to-date set of mortality assumptions and stronger than expected investment returns. The year-end liability is calculated to include an estimated uprating of current and deferred pension benefits in relation to the 2023 pension increase order for the scheme. This is based on RPI and CPI rates at August 2022, equating to 9.9%. The actual increase will be agreed in March 2023 and may be subject to change on finalisation. Any changes from the assumed rate will be accounted for as actuarial adjustments in future years.

NOTES TO THE FINANCIAL STATEMENTS

21. PENSIONS AND SIMILAR OBLIGATIONS (continued)

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

Guaranteed minimum pension (GMP) was accrued by members of the Local Government Pension Scheme (LGPS) between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number of reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. However overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the Second State Pension. The introduction of the new Single State Pension in April 2016 disrupted this arrangement and brought uncertainty over the ongoing indexation of GMPs, which could lead to inequalities between men and women's benefits. As an interim solution to avoid this problem, GMP rules were changed so that the responsibility for ensuring GMPs kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age between 6 April 2016 and 5 April 2021. This new responsibility led to increased costs for schemes (including the LGPS) and hence for scheme employers. An allowance for full GMP indexation was included within the 31 March 2020 funding valuation position and therefore the allowance is automatically included within the balance sheet figure at 31 July 2022. It is anticipated that a further ruling relating to historical transfers is unlikely to be significant in terms of impact on the University's pension obligations. As a result, no allowance has been made for this within the calculation of the level of provision at 31 July 2022.

In April 2015, wholesale changes were made to the Local Government Pension Scheme in Scotland to reform the scheme's benefits structure. These changes were implemented as part of wider reforms to public sector pensions introduced by the UK Government's Public Service Pensions Act 2013. In the LGPS, these changes included moving benefit accrual from a final salary to a career average basis, and linking members' normal retirement age to their state pension age. Transitional provisions were introduced for members who were within 10 years of normal retirement age in 2012. These transitional protection arrangements applied across public service pension schemes where older members were permitted to remain in their pre-2015 schemes. In the LGPS all members were moved onto the new arrangements from 1 April 2015. However those within 10 years of their normal pension age on 1 April 2012 were protected through a statutory 'underpin'. This underpin protection provides that additional checks are undertaken for qualifying members to ensure that the career average pension payable under the reformed LGPS is at least as high as the member would have been entitled to receive under the final salary scheme. Where it is not as high, scheme regulations provide that an addition must be applied to the member's career average pension to make up the shortfall. In the 'McCloud' and 'Sargeant' court cases (which related to the judicial and firefighters' pension schemes respectively), the Court of Appeal found that the transitional protection arrangements directly discriminated against younger members in those schemes. In July 2019, the UK government confirmed its view that these rulings had implications for all the main public service pension schemes, including the LGPS, and that the discrimination would require to be addressed in all the relevant schemes, regardless of whether members had lodged a legal claim. An allowance for the estimated impact of the McCloud judgement was included within the 31 March 2020 funding valuation position. The impact was calculated based on the eligibility criteria of being included within the proposed solution for the McCloud judgement (i.e. any active member who was a participant in the Fund as at 1 April 2012 will be given the greater of the final salary pension or CARE pension upon retirement). The McCloud allowance will therefore automatically be included within the 31 July 2022 balance sheet provision.

B) Scottish Teachers' Pension Scheme (STPS)

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

The scheme is an unfunded multi-employer defined benefit scheme. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has accounted for its contributions as if it were a defined contribution scheme.

NOTES TO THE FINANCIAL STATEMENTS

21. PENSIONS AND SIMILAR OBLIGATIONS (continued)

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

While a valuation was carried out as at 31 March 2016, it is not possible to say what deficit or surplus may affect future contributions. Work on the most recent valuation was suspended by the UK Government pending the decision from the Court of Appeal (McCloud (Judiciary scheme)/Sargeant (Firefighters' Scheme) cases, that held that the transitional protections provided as part of the 2015 reforms unlawfully discriminated on the grounds of age. Following consultation and an announcement in February 2021 on proposals to remedy the discrimination, the UK Government confirmed that the cost control element of the 2016 valuations could be completed. The UK Government has also asked the Government Actuary to review whether, and to what extent, the cost control mechanism is meeting its original objectives. The 2020 actuarial valuations will take the report's findings into account. The interim report is complete (restricted) and is currently being finalised with a consultation. Alongside these announcements, the UK Government confirmed that current employer contribution rates would stay in force until 1 April 2024.

C) Universities Superannuation Scheme (USS)

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

The University has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit). In accordance with the requirements of the SORP, the University recognises a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit), and therefore an expense is recognised. The latest available complete actuarial valuation of the Retirement Income Builder is at 31 March 2020 (the valuation date), which was carried out using the projected unit method. Since the University cannot identify its share of the assets and liabilities in the Retirement Income Builder (defined benefit) section of the scheme, the following disclosures reflect those relevant for those assets and liabilities as a whole.

The 2020 valuation was the sixth valuation for the scheme under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £66.5 billion and the value of the scheme's technical provisions was £80.6 billion indicating a shortfall of £14.1 billion and a funding ratio of 83%.

The key financial assumptions used in the 2020 valuation are described below. More detail is set out in the Statement of Funding Principles (uss.co.uk/about-us/valuation-and-funding/statement-of-funding-principles).

CPI assumption	Term dependent rates in line with the difference between the Fixed Interest and Index Linked yield curves less: 1.1% p.a. to 2030, reducing linearly by 0.1% p.a. to a long-term difference of 0.1% p.a. from 2040
Pension increases (subject to a floor of 0%)	CPI assumption plus 0.05%
Discount rate (forward rates)	Fixed interest gilt yield curve plus: <ul style="list-style-type: none"> • Pre-retirement: 2.75% p.a. • Post retirement: 1.00% p.a.

NOTES TO THE FINANCIAL STATEMENTS

21. PENSIONS AND SIMILAR OBLIGATIONS (continued)

C) Universities Superannuation Scheme (USS) (continued)

The main demographic assumption used relates to the mortality assumptions. The assumptions are based on analysis of the scheme's experience carried out as part of the 2020 actuarial valuation. The mortality assumptions used in these figures are as follows:-

	2020 valuation
Mortality base table	101% of S2PMA "light" for males and 95% of S3PFA for females
Future improvements to mortality	CMI 2019 with a smoothing parameter of 7.5, an initial addition of 0.5% p.a. and a long-term improvement rate of 1.8% pa for males and 1.6% pa for females

The current life expectancies on retirement at age 65 are:

	2022	2021
Males currently aged 65 (years)	23.9	24.7
Females currently aged 65 (years)	25.5	26.1
Males currently aged 45 (years)	25.9	26.7
Females currently aged 45 (years)	27.3	27.9

A new deficit recovery plan was put in place as part of the 2020 valuation, which requires payment of 6.2% of salaries over the period 1 April 2022 until 31 March 2024, at which point the rate will increase to 6.3%. The 2022 deficit recovery liability reflects this plan. The liability figures have been produced using the following assumptions:

	2022	2021
Discount rate	3.31%	0.87%
Pensionable salary growth	3.00%	2.00%

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 2022 on the basis of valuation prescribed by FRS 102. The total provision in respect of this liability is £2.073 million (2021: £2.604 million).

22. FINANCIAL INSTRUMENTS

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

23. RELATED PARTY TRANSACTIONS

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

NOTES TO THE FINANCIAL STATEMENTS

24. **HARDSHIP AND CHILDCARE FUNDS**

	2021/22 £000	2020/21 £000
HARDSHIP FUND (undergraduate and postgraduate)		
Balance at 1 August	327	-
Amounts received from Student Awards Agency for Scotland	202	664
Interest received	1	-
Amount vired (to) /from Childcare Fund	67	79
	<u>597</u>	<u>743</u>
Disbursed to students	(579)	(416)
Other costs	(12)	-
Refunded to Student Awards Agency for Scotland	(6)	-
	<u>-</u>	<u>327</u>
CHILDCARE FUND		
Balance at 1 August	-	-
Amounts received from Student Awards Agency for Scotland	154	144
	<u>154</u>	<u>144</u>
Disbursed to students	(87)	(65)
Amount vired (to) / from Hardship Fund	(67)	(79)
Refunded to Student Awards Agency for Scotland	-	-
	<u>-</u>	<u>-</u>

Amounts received from the Student Awards Agency for Scotland are available solely for students; the University acts only as paying agent. The grants and related disbursements are therefore excluded from the Statement of Comprehensive Income and Expenditure. An amount of £327,000 was received in 2020/21 but related to financial year 2021/22, and therefore remained unspent at 31 July 2021 and was carried forward and disbursed in 2021/22.