Scottish Midland Co-operative Society Limited

# Annual Report & Financial Accounts

for the year ended 29 January 2011


SCOTMID
co-operative

Cover painting by Jennifer Thomson depicting our Scotmid Food Store & Semichem Store at Raeburn Place in the Stockbridge area of Edinburgh

## DIRECTORS

**President**
Mr H Smallman

**Vice President**
Mr H Cairney

Mr J Anderson
Mr I Bailey
Mr P Devenney
Mr J Gilchrist
Mr J Hill
Mr D Jamieson
Mr T McKnight
Mr D Paterson
Mr J Watson
Miss A Williamson

## MANAGEMENT EXECUTIVE

**Chief Executive Officer**
John Brodie

**Head Of Corporate Communications**
Malcolm Brown

**Chief Financial Officer & Secretary**
John Dalley

**Head Of Property & Development Services**
Adrian Lorimer

**Head Of Human Resources**
Steve McDonald

**Chief Operating Officer**
Colin McLean

## ADVISORS AND REGISTERED OFFICE

**Independent Auditors**
Deloitte LLP

**Bankers**
The Royal Bank of Scotland plc

**Solicitors**
Anderson Strathern WS

**Registered Office**
Hillwood House, 2 Harvest Drive,
Newbridge, EH28 8QJ



# Overview

**Above:** Chief Executive, John Brodie, Society Vice President, Harry Cairney and President, Hollis Smallman celebrate the completion of 100 refits at Redburn, Prestonpans.

The Board of Directors is pleased to present its report for the year ended 29 January 2011, which has been a year of change. Externally the change was felt in the form of a significant downturn in the economy in the markets where we trade, particularly in Northern Ireland. Internally, the Society has managed significant strategic change through the disposal of our largest food store and the acquisition of Botterills Convenience Stores Ltd.

The Society's operating surplus before exceptionals for the year was £9.1m compared to £10.2m last year. The main reason for the reduction in the Society's surplus was due to our Semichem business which had a difficult trading year. Semichem was hit particularly hard by the economic downturn in Northern Ireland, a reduction in cross border trading and the rise in VAT. Although less of an issue than the general economy, the prolonged period of adverse winter weather was also a factor that impacted on all the Society's trading businesses.

Apart from Semichem, the rest of the Society's businesses continued to show growth compared with last year. Food Convenience Retail delivered solid profit growth and Property also made progress despite the ongoing difficulties facing the general property market. The Funeral business had an exceptional year with significant increases in the number of funerals arranged and funeral bonds written.

The bottom line surplus after tax was £9.6m, a record result for the Society, benefitting from the one-off profit from the sale of the store in Leith. The Society is underpinned by a strong balance sheet with net assets increasing by £10m to £100m which also included the benefit of a £1.5m reduction in our pension deficit.

During the past 12 months, further progress was made in implementing the democratic changes arising from the Constitutional Review. The Regional Committees are now fully established and the new National Membership Strategy is nearing completion.

Although a record surplus was achieved in the past year a strong note of caution must be sounded for the year ahead. The impact of the recession hit home hard in the final quarter of 2010 and this pattern of difficult trading continued into the first quarter of 2011. Prospects for growth will be constrained by the continuing uncertainties in the market together with the increase in VAT.

Despite the caution in the general economic conditions, the Society is in a much stronger position to meet the significant challenges that lie ahead. The benefits of the strategic initiatives in 2010 will provide the Society with a solid platform for long term growth.

Directors' Report

# Food Retail


**Above:** Director, Tom McKnight opens the first Botterills conversion at Hillhead. **Opposite:** Staff at Uphall clear the snow.

In November 2010, Scotmid reinforced its position as the leading community convenience retailer based in Scotland, with the purchase of the family owned Botterills Convenience Stores. The acquisition is an excellent strategic fit that will add value to the Society in the long term. With 51 convenience stores, it significantly increases the Society's presence in the West of Scotland. The integration of the stores commenced with four pilot stores re-branded to operate under the Scotmid fascia and lessons learned will then be applied to the rebranding of the rest of the estate in 2011.

In a year of change, as well as the acquisition, food retail also successfully completed the disposal of the Leith superstore, opened 5 new convenience stores and refurbished a further 21 Scotmid stores so that over 75% of the food estate is in the new format.

During the year the food retail business delivered a solid trading performance in spite of increasing costs, the deteriorating economy in Scotland and an extended period of winter weather disruption. The business also contended with increased competitor activity in terms of store openings and price reductions supported by extensive advertising campaigns. Profit growth was helped by the buying benefits passed on to Scotmid as a result of the integration of Somerfield into the Co-operative Retail Trading Group (the buying group for food retail co-ops). However the actual share of the Somerfield margin benefit realised in Scotmid's convenience stores in 2010 fell short of the estimated annual benefit recharged to the Society as an exceptional item last year.

The business implemented a number of successful process improvements and social responsibility initiatives in the year. For example, the development of technology helped to improve product availability, reduce waste and optimise the level of stock held in-store. The Society continues to promote socially responsible community retailing and our work in this area has been acknowledged externally through a number of "Safer Retailer" awards and the Scottish Grocer award for Social Responsibility. In 2010, we also continued to promote reduced carrier bag usage by the introduction of a charge for carrier bags which has resulted in almost £10,000 donated to charity.

The ongoing changes and systematic development of our food convenience business was also recognised by industry experts by winning the Multiple Retailer of the Year at the Scottish Retail Excellence Awards and six Scottish Grocer Awards in 2010.

# Semichem


**Above:** The Abbey Centre branch in Northern Ireland opens following relocation.

Semichem, the discount retail outlet for branded health and beauty products, was impacted by difficult trading conditions resulting from the general economic decline together with extreme weather conditions at peak trading time. The Northern Ireland region was particularly affected with a significant down turn in the economy and increased competition from a number of other discounters. The volume of cross-border trade also reduced from its recent high level.

Despite the economic difficulties our Scottish business delivered turnover growth which was a creditable performance relative to many other non-food retailers on the high street. Sales growth categories included household and food. Stores in the North of England showed encouraging growth in their second year of trading.

In a highly price competitive market our margins were impacted by the re-introduction of the 17.5% VAT rate and in January the additional rise to 20% as we strived to maintain key price points for our customers. Throughout this challenging period we maintained a clear focus on delivering continuous improvement in retail standards, customer service and marketing of the Semichem brand. Marketing activity included a new television advertising campaign and sponsorship activity such as the mental health charity See Me's photographic competition.

Estate development continued with three new store openings and five successful store relocations. Recognition of the success in continuing to improve and develop standards was acknowledged externally as Semichem played a major part in the Society winning the Multiple Retailer of the Year award.

The Semichem online business continued to grow particularly over the Christmas and New Year period when weather conditions were extreme. The website was further developed and semichem.co.uk products are now available through a number of shopping portals including Amazon. Looking forward the online business will continue to focus on the fragrance market.






**Above:** The prolonged period of extreme weather throughout the festive period had a marked impact at peak trading time. **Below** Semichem team at the opening of the new store in Troon.

Directors' Report

# Property, Funerals & The Fragrance House

**Above left:** Rosewell House office development at Newbridge. **Above right:** One of the new investment units created from vacant shop space.

## PROPERTY

Despite the continuing difficult economic climate the Property Division still produced good results. This has been achieved as a result of a strong residential letting market and strict control of rental arrears and costs.

It remains uncertain if there will be any improvement in the property market in the year ahead, but letting demand for our residential portfolio is expected to remain high, assisted by the slow housing market and restricted bank lending to first time buyers.

There has been some modest growth in capital values across the sector as a whole although the commercial property sector remains weak. Residential values have remained stable in Edinburgh to the Society's advantage as a considerable proportion of the portfolio is Edinburgh based. With a net investment in Scotmid's property estate in the year and valuations broadly static, the total value of the Society's investment portfolio increased by £0.8m to £66m.

The main property investment activity related to the office development adjacent to the Society's Head Office, with half the building now let and the remainder being actively marketed. There has also been success in carving out five additional investment units from vacant shop space, two of which are already let. The Society's refurbishment programme for residential property has continued in order to take advantage of the buoyant letting market.

## FUNERALS

The Funeral Division had a successful trading performance with increases in both the number of funerals conducted and the number of Funeral Plans (Bonds) written. This has been particularly significant given the backdrop of a declining death rate and increasing competition.

Capital investment in the Society's funeral homes continued with the opening of a new branch at Liberton Brae in Edinburgh and the refurbishment of Penicuik and Portobello. The major refurbishment of Forrester Park in Edinburgh included the creation of two new arrangement rooms, two new viewing rooms and client car park. Investment in the fleet of vehicles continued with the purchase of a new hearse, two limousines and a private ambulance.

Closer links with local communities continue to be developed through a number of initiatives, including charity events and the introduction of memorial Christmas trees in all funeral homes.

## THE FRAGRANCE HOUSE

The Fragrance House is the Society's premier fine fragrance retail outlet offering prestige brands including Versace, Jean Paul Gaultier, Dolce & Gabbana, Armani and Calvin Klein, all of which have proved popular with the ever expanding customer base. As a result of the success of the two initial pilot stores, three further stores were opened during the year in Aberdeen, Buchanan Galleries (Glasgow) and Greenock. As the brand expanded during the year, further suppliers were introduced which enabled new promotions and added value lines to be offered.


**Above:** Our new funeral home at Liberton Brae. **Below left:** The arrangement room at Liberton funeral home. **Below right:** The Funeral division continued to operate throughout the extreme winter weather and were proud that not a single funeral was cancelled. **Bottom:** The opening of our latest branch of The Fragrance House at Greenock.

# Corporate Matters and Central Services

**Above:** Members of the Property & Development Services team with the Carbon Trust Award presented to the Society in recognition of our commitment to a planned programme of emission reductions.

The Society's review of its Constitution was completed in April 2010 with the adoption of a new rule book and Members in the West Region exercised their newly acquired democratic right to directly elect Mr Patrick Devenney from the West Regional Committee to represent them on the Board at the OGM on 4 October 2010. The Board has now returned to its full complement of 12 directors.

Following on from the Constitutional Review, the Board decided to undertake a review of its relationship with the Scotmid Co-operative Party, taking into consideration the current governance structure. A sub-committee of the Board was formed to undertake this review, seeking feedback from a range of interested parties. An update on the progress of the review will be provided to Members at the AGM in April 2011 and it is expected that the review will be completed in 2011.

Another special contribution of £1.8m was made to the Society's pension scheme helping to reduce the estimated net deficit to £10m at the year end. The result of improved life expectancy has contributed to the escalating cost of operating a final salary scheme and therefore in anticipation of legislation changes requiring auto enrolment, the Board decided to close the final salary pension scheme to new entrants and a replacement defined contribution scheme will be introduced in its place.

Central support teams continue to work with and support every area of the business. They have played a key role in the integration of the Botterills business into the Society and help to ensure that staff, customers and suppliers continue to be served during the changeover period.

The Society continued to enhance the training offer within the Academy. New workshops were developed and added to the curriculum and the Manager Training Programme was extended into our Post Offices. Preliminary work on building a partnership link with Craigmount High School and Stevenson College in Edinburgh to support a Level 2 retail qualification has commenced with the aim of launching the programme at the start of the 2011 academic year.

In Technology, 2010/11 saw the implementation and roll out of the new SharePoint system to all food stores. This system allows the speedy and accessible delivery of key operational information to stores and will be extended during 2011 to all Semichem and Head Office users. The progressive roll out of IBM tills in stores will also continue together with the implementation of the new Chip and Pin solution which was developed during the year.

The Society became one of only three other co-operatives to recieve the Carbon Trust Standard, a rigourous external assessment which shows that we are committed to reducing our carbon emissions now and into the future.



Directors' Report

# Membership Development

**Above:** The Membership & Community team. **Below:** Recent issues of Jigsaw, our membership magazine.

The new Regional Committees have been operational for one year. They have worked with the Membership and Community team to help promote membership of the Society at various events in Scotland. In addition, they have attended new store openings and made a number of presentations on the history of the Society to increase awareness of the co-operative business model. The process of bringing interested members together in the North of Scotland has also started with the aim of creating our first Active Members group.

Two issues of Jigsaw, our member's magazine, were distributed throughout the year. Scottish artist Jack Vettriano and our most famous customer, Susan Boyle, featured on the respective front covers. The December issue featured a comprehensive membership survey and we were delighted that nearly 10% of Jigsaw's readership took the time to reply. A report on the findings of the survey is being compiled which will be used to shape membership activities going forward. The key lessons learned from the membership survey will be incorporated into the new National Membership Strategy which will be launched in 2011.

Directors' Report

# Community & Charity Activity

**Above:** Over 60 Society staff took part in the Pedal for Scotland sponsored cycle from Glasgow to Edinburgh.

Together, the Regional Committees and the Membership and Community team launched the Community Grant Fund which has been designed to help promote co-operation and support a wide range of projects within the local communities served by the Society.

An application form which is available in store or on the Society's website (www.scotmid.coop) has been developed to help publicise the assistance available. Throughout the year the Committees approved Community Grants for a wide range of activities and many of the Committee members attended events to present cheques for the activities supported. Some examples of the projects supported included Fairtrade Fortnight, the dedication of the Broxburn and Uphall War Memorial, and the Friends of the Scottish Mining Museum.

At the OGM in October, a specially commissioned film was shown to help bring to life a number of the Society's community activities. This was well received by Members and a new film is being produced for the AGM. The Community team have been involved in a number of major projects including the production of a dental health recipe book issued to every Primary 6 pupil in the Lothians. The Society also stepped in to help ensure that the Leith Festival went ahead last year when we became the main sponsor of this important community event.

The varied nature of community activity can also be seen in the sponsorship of events such as Edinburgh Festival Theatre's Hip Hop Workshops for vulnerable youths; the mental health charity See Me's photographic competition; a Junior Warden scheme in Fraserburgh; a breakfast club in Fintry (Dundee); a Relay for Life Walk in Grangemouth and the continuing sponsorship of Pedal for Scotland. In addition, the Society's staff, customers and members raised £60,000 for Alzheimer's Scotland whilst in just over five months £110,000 was raised for the Royal National Lifeboat Institute.

## POLITICAL DONATIONS

Donations to the Co-operative Party amounted to £12,000. A donation of £38,000 was made to the Scottish Midland Co-operative Party Council.

## APPRECIATION

The Directors would like to thank our Members, customers and staff for their ongoing contribution to this year of change for the Society. In particular, a special thanks to our staff who kept all areas of the business operational in the exceptional winter weather and to our Members and customers who continued to support us throughout this challenging period.

Signed on behalf of the Directors

Hollis Smallman – **President**

Harry Cairney – **Vice President**

31 March 2011

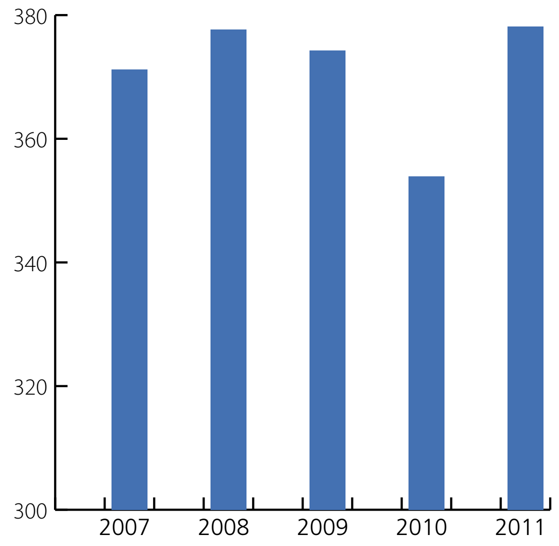

**Above:** Society President, Hollis Smallman (2nd from right) joined Chief Executive, John Brodie (far left) and other Society staff for the launch of our partnership with the RNLI.


**Above left:** A Fraserburgh Junior Warden. **Above centre:** The Society was the primary sponsor of the "Heathly Smiles" dental health book. **Above right:** Chief Financial Officer, John Dalley presents the RNLI with proceeds from the first five months of our year long fundraising partnership. **Below left:** The launch of a local healthy eating campaign sponsored by the Society in the Moredun area of Edinburgh. **Below centre:** Edinburgh Festival Theatre Hip Hop Workshop. **Below right:** Students at Queen Margaret's College, Edinburgh, enjoy a smoothie bike session.

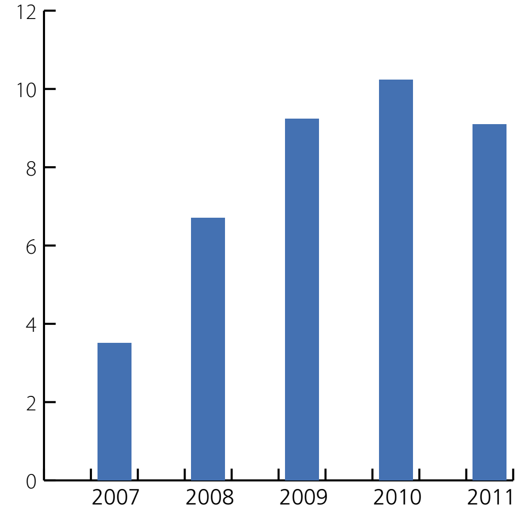
Group Five Year Summary

| | 2010-11 52 weeks | 2009-10 52 weeks | 2008-09 53 weeks | 2007-08 52 weeks | 2006-07 52 weeks |
|---|---|---|---|---|---|
| number of members | 241,818 | 239,749 | 238,791 | 237,176 | 235,819 |
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| turnover | 378,189 | 353,934 | 374,304 | 377,737 | 371,199 |
| operating surplus before exceptionals | 9,093 | 10,236 | 9,235 | 6,698 | 3,513 |
| operating surplus after exceptionals | 13,346 | 7,504 | 11,924 | 6,219 | 2,325 |
| surplus before tax | 11,166 | 5,561 | 9,085 | 3,016 | 114 |
| retained surplus/(loss) | 9,582 | 4,284 | 6,501 | 1,047 | (1,640) |
| depreciation | 8,713 | 7,846 | 7,333 | 7,246 | 7,482 |
| net finance costs | 1,516 | 1,333 | 2,231 | 2,720 | 3,160 |
| purchase of fixed assets | 14,034 | 13,712 | 14,854 | 7,793 | 3,753 |
| fixed assets | 163,252 | 141,191 | 136,622 | 142,367 | 143,366 |
| net current liabilities | (2,321) | (10,725) | (17,787) | (2,593) | (2,680) |
| total assets less current liabilities | 160,391 | 130,466 | 118,835 | 139,774 | 140,686 |
| less long term liabilities | 50,121 | 28,456 | 19,723 | 33,230 | 38,630 |
| less provision for liabilities and charges | 378 | 416 | 862 | 1,826 | 2,638 |
| less pension liability | 10,026 | 11,509 | 8,140 | 8,775 | 7,514 |
| net assets | 100,406 | 90,085 | 90,110 | 95,943 | 91,904 |
| share capital | 5,162 | 5,094 | 5,021 | 5,015 | 4,952 |
| revenue reserves | 64,865 | 54,470 | 54,420 | 48,163 | 44,861 |
| revaluation reserve | 30,379 | 30,521 | 30,669 | 42,765 | 42,091 |
| net assets | 100,406 | 90,085 | 90,110 | 95,943 | 91,904 |

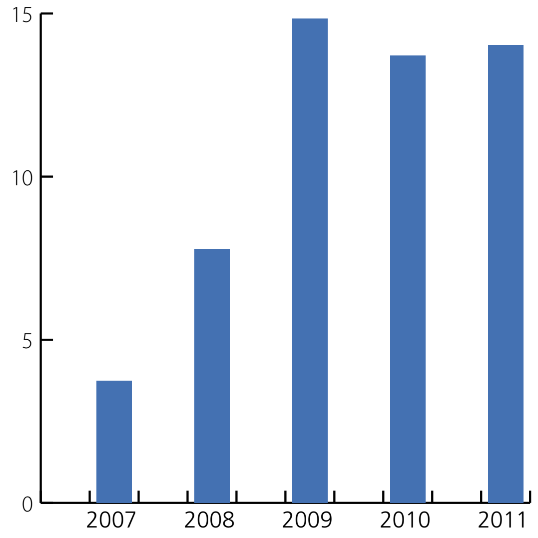
**Turnover (£ millions)**



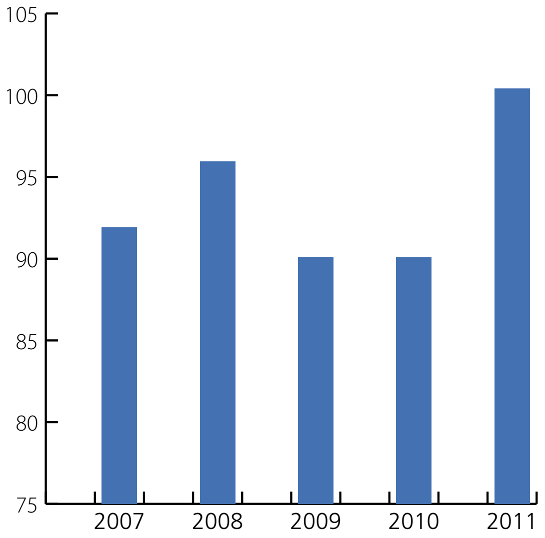

**Operating surplus before exceptionals (£ millions)**




**Purchase of fixed assets (£ millions)**




**Net assets (£ millions)**



The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Industrial and Provident Society law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice. The financial statements are required by the Industrial and Provident Societies Acts 1965 to 2002 to give a true and fair view of the state of affairs of the group and of the profit or loss of the group for the period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002. They are also responsible for the system of internal control, for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### GOING CONCERN

The Society's business activities, together with the factors likely to affect the future development, performance and position of the Society, are set out in the Directors' Report on pages 3 to 13. The Board remains satisfied with the Society's funding and liquidity position. The Society meets its funding requirements through a combination of term loans and an overdraft facility (renewable annually with an expectation that the facility will be renewed on similar terms when it falls due). At 29 January 2011, the Society had undrawn facilities and had sufficient headroom with respect to the financial covenants of these facilities.

The Directors consider that the Society has the flexibility to react to changing market conditions and the Society is well placed to manage its business risks successfully despite the uncertain economic outlook. Therefore, after reviewing projections and sensitivities and making all appropriate enquiries, the Directors have an expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Society's financial statements.

## GOVERNANCE REPORT

### CODE OF BEST PRACTICE

The Society substantially complies with the Co-operatives UK Code of Best Practice. The recommendations of the Code were considered during the review of the Society's Constitution which was completed and approved by Members at the AGM in April 2010. The Code is comprehensive in scope and Co-operatives UK have recognised that co-operative societies differ in scale, size and resources and it is inevitable that levels of compliance will differ for acceptable reasons. The approach to assessing compliance is that societies should review their rules, practices and policies, in the context of what is appropriate for their circumstances, and provide explanations where these do not comply strictly with the code. The following explanations are therefore provided:

1) Age rule: Directors retire at age 72 rather than the Code of Best Practice recommended age of 68. The Society believes that with advances in healthcare and individuals living longer, fuller lives it is appropriate to adopt a higher age limit. This approach was confirmed by Members during the Constitutional Review.
2) Percentage of Employee Directors on the Board: A maximum of 25% of the total membership of the Board may be employee directors compared with the Code of Best Practice recommended limit of 33%. The Society believes that this more restrictive limit provides enhanced protection for the Society.
3) Interim Accounts: the Society produces a summary report on unaudited interim results rather than full interim accounts, this report is published but not audited.
4) Publicising the AGM: the Board considers the current notification periods and methods to be the most appropriate for our Members. The date of the next AGM/OGM is provided on the Notice of Meeting posted in store and on the Society's website thereby giving a notice period of approximately 5 months. The Notice of Meeting is posted in Scotmid stores 8 clear days before a General meeting.





In each case the Board has satisfied itself that the Society is better served by these specific rules and that they comply with the spirit of the Code.

### MEMBERSHIP MATTERS

As a member owned democratic organisation, the Board recognise the importance of encouraging members to play their part in the governance of the Society and to improve membership participation. The Search Committee of the Board is responsible for membership matters including membership strategy and development and they are supported by a Membership team who promote recruitment, organise membership events and communicate with Members.

Details of the Membership activities undertaken during the year are contained within the Membership Development report on page 11.

### REGIONAL DEMOCRACY

Members' meetings are advertised in our stores, on our website and in the local press. Meetings are currently held in two locations within the Regional constituencies. The Board plans to establish a North Regional Committee when the membership in that region develops.

The Regional Committees have been operational for one year. Regional Committee members who meet the qualifying criteria are elected by the membership at the Members' Regional Meetings. Regional Committee members are elected to serve on the Committee for a period not exceeding three years after which they have to be re-elected by the members in their region in order to retain their position. Regional Committee's are also responsible for the nomination of Directors, from within the Regional Committee, to represent the Members for that region.

### BOARD'S ROLE

The role of the Board and the details of the Directors' role and responsibilities are contained within the Society's Rules. The Rules are available to all members on the Society's website or on request. The Board consists of 12 Directors representing Members in the Society's core trading area. Regional Committee members nominate Directors but the Members exercise their democratic right to directly elect Directors onto the Board. One recently retired employee serves on the Board, three retired employees are Board members and no Board member is employed by the Society.

### INTERNAL CONTROL FRAMEWORK

The Board is ultimately responsible for the Society's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Co-operatives UK Corporate Governance Code of Best Practice requires Directors to review the effectiveness of the Society's system of internal controls. The review covers all material controls including financial, operational, compliance and risk management systems in compliance with the Turnbull guidance. Key elements in the Society's adopted internal control framework are detailed as follows. These are considered to be appropriate to the current size and complexity of the Society.

### CONTROL ENVIRONMENT

The Society is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations. The Society has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Society objectives. There are clear lines of responsibility, delegations of authority and reporting requirements.

### INFORMATION AND COMMUNICATION

The Society undertakes periodic strategic reviews which include consideration of long term financial projections and the evaluation of business alternatives. Annual capital and revenue budgets are approved by the Board. Trading performance is actively monitored and reported to the Board on a regular basis. All significant capital projects and Society acquisitions require Board approval. Through these mechanisms, Society performance is continually monitored, risks identified in a timely manner, the financial implications assessed, control procedures re-evaluated and the corrective actions agreed and implemented.

## BOARD COMMITTEES

There are four Board Committees, three of which have terms of reference as recommended in the Code: Audit, Remuneration and Search. The General Purposes Committee is responsible for addressing general matters not specified in the terms of reference of the above committees.

The General Purposes Committee (with additional co-opted Directors as required) completed its review of the Constitution in April 2010, making recommendations to the Board on the proposed changes to the Society's democratic structure and constitution.

In 2010, the Board established a Review Committee to examine the Society's relationship with the Scotmid Co-operative Party and the level of support provided to it. The Society aims to complete the Review during the year and Members will be provided with an update on the progress of the Review at the AGM in April 2011.

## AUDIT

The Audit Committee is responsible for monitoring both internal controls and risk management. It is chaired by a director who is not the President, it consists of 4 directors and it met 3 times in 2010/11.

The Society has an Internal Audit Department reporting directly to the Chief Executive. An annual report for 2010/11 has been produced and audit plan for 2011/12 has been agreed with the Audit Committee. Any control weaknesses identified are highlighted to management and the Audit Committee which monitors Internal Audit activity and ensures that appropriate actions are taken.

The terms of reference agreed by the Board include:

- Consideration of the appointment of the external auditor and the scope of the audit;
- Review of the financial statements and auditors' management letter; and
- Review of the internal audit programme and internal audit reports.

The Board and Management Executive are responsible for the identification and evaluation of key risks applicable to the Society. These risks may be associated with a variety of internal or external sources, including control breakdowns, credit and liquidity risks, disruption of information systems, competition, natural catastrophes and regulatory requirements. Risk registers are maintained which highlight the likelihood and impact of risks occurring. These registers are updated at least twice a year and actions necessary to mitigate those risks are considered. This process enables resource to be focussed on key risk areas, helping to prioritise activities. The Audit Committee reviews the risks facing the Society twice a year to determine if adequate controls are in place.

The Chair of the Audit Committee reports the outcome of the meetings to the Board and the Board receives the minutes of the Audit Committee meetings.

In line with the Code of Best Practice, the Audit Committee has established a policy of rotating the audit partner every five years. The present audit partner will have completed his five year rotation during the year and will retire. A new audit partner has been identified and will be appointed in his place. The external audit contract was last put out to tender in 2006.

## REMUNERATION

The Remuneration Committee consists of four directors, none of whom are employees, recently retired employees or the President of the Society. The Committee makes recommendations annually to the Board on executive remuneration. External advice is provided to the Remuneration Committee by an independent advisor 'mflhr' to ensure that the remuneration is appropriate to the scale and scope of the business. The Remuneration Committee is also responsible for making recommendations to the Board for the level of directors' remuneration and expenses. Details of the remuneration of Directors and Management Executive can be found in Note 2 to the financial statements. The salary information in the bandings in Note 2 provides appropriate disclosure of Board and Management Executive remuneration for Scotmid Society although not in the format recommended in Co-operatives UK's best practice.

The Profit Related Pay scheme ensures that there is a link between performance and reward and that the interests of management and staff are aligned with those of the Society and Members. All employees are included in the scheme. The importance of attracting, retaining and motivating senior management of appropriate calibre was considered when the scheme was designed.





In respect of the Management Executive a summary of the performance-related bonus schemes is provided below:

### 1) ANNUAL INCENTIVE SCHEME

All members of the Management Executive are eligible to participate in an annual performance-related bonus scheme. The Committee reviews bonus targets and levels of eligibility annually. There is a maximum bonus potential of 50% of base salary for exceeding targets determined by the Board. For Management Executive members with trading unit responsibilities, a significant proportion of the annual incentive is derived from trading unit performance. Targets in the bonus year 2010/11 related to financial performance measured by Society profit and divisional trading profit, as appropriate to the individual's area of responsibility. A discretionary element, based on personal objectives, is also included within the annual bonus scheme, and is part of the maximum bonus potential.

### 2) LONG-TERM INCENTIVE PLAN (LTIP)

The Society operates a LTIP for the Management Executive in order to align these executives with the Society's longer-term interests. The scheme sets cumulative targets across a three-year period. Each year the Committee reviews actual performance compared to target for the latest three year scheme maturing and sets targets for the next three-year period. The maximum payment level under the scheme is 35% of base salary for outperforming targets. Base salary is taken as the salary at year one of the three-year period. The performance measure selected by the Committee is average return on capital employed, derived from the Society's three-year business plan.

As a result of improved life expectancy the cost of operating a final salary pension scheme continues to rise and therefore in anticipation of legislation changes requiring auto enrolment, the Board decided to close the final salary pension scheme to new entrants and a replacement defined contribution scheme will be introduced in its place.

## SEARCH

The Search Committee consists of five directors. It is responsible for establishing a process to evaluate the balance of skills and effectiveness of the Board, to consider director succession planning and the composition of Board committees. It is also responsible for membership matters including membership strategy and development.

During the year, the Committee reviewed the Society's current membership strategy. As part of that review, Regional Committees were consulted on the development of the next phase of the Membership strategy – Taking Membership to a New Level - as they are responsible for promoting membership and implementing the Society's membership strategy within their own regions. Members will be given an update on the next stage of membership development at the AGM in April 2011.

The Board evaluated its own performance during the year and concluded that it met its collective responsibilities. Glasgow Caledonian University has also undertaken an assessment of Board skills which has included an evaluation of individual Directors skills, the skills of the Board as a whole and the skills of one of the Board's Committees. The results of the evaluation will be discussed by the Search Committee with any recommendations considered and implemented by the Board in due course.

A learning and development plan for elected representatives was recommended by the Committee and approved by the Board. The plan consists of a rolling four year training programme aimed at providing elected representatives with the skills they require to help them to undertake their duties.

For and on behalf of the Board

Hollis Smallman - **President**

John Brodie - **Chief Executive Officer**

John Dalley - **Secretary**

As a Co-operative Society, Scotmid was founded with social responsibility at the core of its values. The Society uses the ten Key Social and Co-operative Performance Indicators recommended by Co-operatives UK to assess its performance in this area. Scotmid has a diverse range of operations so these measures are not always readily available or the most relevant for all our individual businesses. To overcome this, estimates are used where appropriate or we use sample data from our food convenience business, our most significant trading division. Botterills Convenience Stores Ltd was acquired by Scotmid in November 2010 and the store integration process did not begin until February 2011 therefore data from these stores is not included in the following indicators.

## MEMBER ECONOMIC INVOLVEMENT

An exit survey was conducted in eight stores to determine an estimate of our member economic involvement. The survey was conducted by an independent agency (George Street Research). Based on the sample selected, member involvement as a percentage of sales has remained constant at 10%.

## MEMBER DEMOCRATIC PARTICIPATION

108 (2009/10 - 101) Members attended the Annual General Meeting on 26 April 2010 and 103 (2009/10 - 89) attended the Ordinary General Meeting on 4 October 2010. Although there were no contested elections during the year ended 29 January 2011, members in the West Region exercised their newly acquired democratic right to directly elect Mr Patrick Devenney to represent them on the Board.

## STAFF AND MEMBER TRAINING

This year around 32,000 hours (2009/10 - 38,300) of formal staff training took place, an average of 7.6 hours per employee (2009/10 - 9.4). The previous two years have seen the need to train all staff in the new licensing regime which came into effect in September 2009 causing a peak in training hours. Staff turnover has also reduced which impacts on the need for training. E-Learning amounted to 7,000 hours compared to around 4,000 hours last year and is playing an increasing part in providing cost effective training to our geographically distributed workforce.

Members actively participated in a total of 285 hours of training compared to last year's total of 310. This equates to 2.6 hours (2009/10 - 3.1) of training per "active" Member (where active membership for training purposes has been defined as the number of Members attending the AGM). The slight reduction in training hours relates to the reduced size of the Board and Regional Committees which was an outcome of the Constitutional Review. A new four year training plan has been designed to provide enhanced core training and development modules for our elected representatives.

## STAFF INJURY AND ABSENTEE RATES

Staff are encouraged to report all accidents, no matter how minor, and these are recorded to ensure that safety standards are maintained and improved. This year we had 17 (2009/10 - 23) reportable accidents equating to 0.4% (2009/10 - 0.6%) of the average total workforce. There were also 154 minor injuries (2009/10 - 139), which equates to 3.7% of the average total workforce. This gives a combined total of 4.1% (2009/10 - 4.0%). This information is reported to the business each period and appropriate action is taken.

An increase is reported in absence at 22,877 days lost compared to 21,475 last year. This amounts to an average of 5.4 days per employee (2009/10 - 5.3). This figure falls well below the average of 6.6 days per employee for private sector services (CIPD June 2010). The trend also falls below the retail average of 6 days per employee from the same source, highlighting the benefits derived from the improved absence management practices.

## STAFF PROFILE

Scotmid had an average of 4,211 employees in 2010/11 compared to 4,083 in 2009/10 reflecting new stores opened at the end of 2009 and during 2010 but excluding the new Botterills employees. The staff profile by gender at the year-end was 73% female and 27% male which has now remained static for three years. Our staff profile by ethnicity is based on a sample of the workforce that responded to a 2006 survey, adjusted for subsequent starters and leavers.

| Ethnic Origin | % of workforce |
|---|---|
| Asian | 2.9 |
| Black | 0.5 |
| Other | 0.1 |
| White | 96.5 |
| Total | 100 |

To put this in context the 2001 census shows 98% as the proportion from a white ethnic background in the total population of Scotland. We also asked for disability status and found that 1% of staff surveyed classify themselves as disabled.

## CUSTOMER SATISFACTION

The Co-operative UK's definition of customer satisfaction is included in our regular customer surveys conducted by Harris International Marketing (HIM). In the course of their independent survey, HIM carried out 600 shopper interviews in a sample of 50 of our stores across our trading area. This was part of a wider Convenience Tracking Programme covering 13,145 shoppers. The survey was conducted between February and April 2010. The proportion of shoppers classified as "very satisfied" was 87% (2009/10 - 81%) which is significantly ahead of the "all shopper" survey result of 78%. The "satisfied" score was 94% (2009/10 - 97%) which although slightly down has again outperformed our sector peers who the HIM report gives an average of 90%.

## ETHICAL PROCUREMENT

The majority of the Society's purchases are through the Co-operative Retail Trading Group (CRTG) and therefore we continue to benefit from their purchasing policies. CRTG is committed to the principles of sound sourcing, animal welfare, food integrity, health and ecological sustainability.

## INVESTMENT IN COMMUNITY & CO-OPERATIVE INITIATIVES

A total of £235,000 (2009/10 - £229,000) was spent on investment in both community and co-operative initiatives, amounting to 2.6% of our pre-tax profit before exceptional items (2009/10 - 2.2% restated before exceptional items for comparison purposes). The new Regional Committees, set up as a result of the Constitutional Review, now have responsibility for community grants and donations. Around £25,000 was invested in co-operative initiatives, with the Co-operative Education Trust Scotland being the main beneficiary.

Charitable initiatives raised an additional £45,000 for the Alzheimer's fund in the early part of 2010 bringing the total to £60,000 for this organisation. During the summer, the RNLI was adopted as the Society's charity partner and £110,000 has been raised to date through a variety of fundraising activities.

## THE ENVIRONMENT

This year we are reporting on direct greenhouse gas emissions in two ways: "net" emissions which treat electricity from renewable sources as zero carbon emissions and "gross" emissions which treat electricity from renewable sources in the same way as non-renewable electricity. In 2010 DEFRA reviewed the conversion factors used to calculate the green house gas emissions (GHG) from energy use and these new factors have been used to calculate our indicator of performance.

For the year ended 29 January 2011, the Society produced an estimated 2,754 tonnes of GHG (net) from on-site operations. Using the directly comparable conversion factors and diesel price sources, the overall figure for last year would have been 3,106 tonnes. The gross emissions, which include electricity from renewable sources, are 25,325 tonnes of GHG (2009/10 - 25,865). Net GHG produced per employee equates to 0.65 tonnes compared to 0.76 in 2009/10, recalculated on the same basis.

During the year we continued to focus on energy reduction as part of the store refurbishment programme and there has been a benefit from the use of electrical smart meters to better manage our electricity usage. Smart meters are now being introduced for gas usage. We are also half way through a water saving project. A significant proportion of the Society's car fleet was replaced in the year in line with a revised policy to encourage a move to lower emission diesel or hybrid technology.

Scotmid aims to reduce net greenhouse gas emissions by 20% by 2020, based on 2008 levels. To date we have achieved success in reducing emissions and our general work so far in this area has been acknowledged by achievement of the Carbon Trust Standard. This award confirms that the Society has passed an external assessment that demonstrates the Society's commitment to reducing our carbon emissions now and in the future.

## PROPORTION OF WASTE RECYCLED/REUSED

Our waste uplift amounted to 2,101 tonnes which shows a 12.5% reduction on last year's total of 2,402. CRTG vehicles collect cardboard and plastic from our food retail outlets for recycling and have provided a percentage of the total amount of recycled waste attributable to Scotmid based on CRTG cases issued. Semichem stores backload cardboard to our distribution warehouse for recycling. Our Head Office recycles cardboard, paper and plastic through our waste uplift provider. As a result we estimate that we have recycled 1,658 tonnes (2009/10 - 1,652) of cardboard and 96 tonnes (2009/10 - 53) of plastic/paper. These figures indicate that the proportion of waste recycled is in the region of 45% (2009/10 - 42%) of our total waste.

We have audited the financial statements of Scottish Midland Co-operative Society Limited for the 52 weeks ended 29 January 2011 which comprise the statement of accounting policies, the group revenue account, the group statement of total recognised gains and losses, the group note of historical cost profits and losses, the group balance sheet, the group cash flow statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Society's members, as a body, in accordance with section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditors' 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 Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

## RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Society's affairs as at 29 January 2011 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts, 1965 to 2002.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts, 1965 to 2002 requires us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the Society has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we need for our audit.

**Deloitte LLP**
Chartered Accountants and Statutory Auditors
Edinburgh, UK
31 March 2011





## BASIS OF ACCOUNTING

The accounts are prepared under the historical cost accounting convention as modified by the annual revaluation of investment properties, and under applicable United Kingdom accounting standards. The principal accounting policies are summarised below and have been applied consistently throughout the current and preceding year. The Society's business activities, together with the factors likely to affect its future prospects, are discussed in the Directors' Report on pages 3 to 13. After making enquiries, the Directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

## ACCOUNTING DATE

The accounts are prepared for the 52 weeks to 29 January 2011 (2010 - 52 weeks to 30 January 2010).

## TURNOVER

Turnover includes cash sales, goods sold on credit and property rental income inclusive of value added tax.

## INVESTMENTS

Fixed asset investments are stated at cost less any provision for impairment.

## INVESTMENT INCOME

Interest and dividends received are accounted for on the basis of cash received during the year.

## GOODWILL

Purchased goodwill is capitalised in the year in which it arises and amortised over its estimated useful life up to a maximum of 20 years with no charge for amortisation in the year of acquisition. Provision is made for any impairment.

## TANGIBLE FIXED ASSETS AND DEPRECIATION

No depreciation is provided on freehold land and assets in the course of construction. For all other tangible fixed assets, depreciation is calculated to write down their cost or valuation to their estimated residual values by equal annual instalments over the period of their estimated useful economic lives, which are considered to be:

Buildings - 40 years. Plant, transport and fixtures - between 3 and 10 years.

Investment properties are revalued annually and the aggregate surplus or deficit is transferred to the revaluation reserve except that a deficit which is expected to be permanent or the reversal of such a deficit, is charged (or credited) to the revenue account. On disposal of investment properties, any related balance remaining in the revaluation reserve is transferred to the revenue reserve. Depreciation is not provided in respect of investment properties. The Directors consider that this accounting policy, which represents a departure from the statutory accounting rules, is necessary to provide a true and fair view as required under SSAP 19 "Accounting for investment properties". The financial effect of this departure is shown in the note of historical cost profit and loss.

## ASSETS LEASED TO THE SOCIETY

Fixed assets leased under finance leases are capitalised and depreciated over the shorter of the lease term and their expected useful lives. The capital element of future lease obligations is recorded within liabilities, while the finance charges are allocated over the primary period of the lease in proportion to the capital element outstanding. The costs of operating leases are charged to the revenue account as they accrue.

## ASSETS LEASED BY THE SOCIETY

Rental income from property is accounted for on the accruals basis.

## CAPITALISATION OF INTEREST

Interest costs relating to the financing of major developments are capitalised up to the date of completion of the project.

## STOCKS

Stocks are valued at the lower of cost and net realisable value. Provision is made for any damaged, slow-moving and obsolete stock as appropriate.

## DEBTORS

Credit account balances are included at gross value, after providing for bad debts.

## CONSOLIDATED FINANCIAL STATEMENTS

The group financial statements consolidate those of the Society and its subsidiary Society and companies. In accordance with FRS 9, the group's interest in joint ventures is accounted for using the gross equity method of accounting.

### DERIVATIVES

The Society holds derivative financial instruments to reduce exposure to interest rate movements. The Society does not hold or issue derivative financial instruments for speculative purposes.

Derivatives entered into include interest rate swaps, caps and floors. The fair value of interest rate derivatives is the estimated amount that the Society would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current credit worthiness of the swap counterparties.

Interest payments or receipts arising from interest rate swaps are recognised within net finance charges in the period in which the interest is incurred or earned.

### TAXATION

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. No provision is made for taxation on capital gains deferred under the rollover provisions of the Taxation of Chargeable Gains Act 1992. Deferred tax assets are recognised to the extent that they are regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

### PENSION COSTS

The Society operates a defined benefit funded pension scheme and also contributes to a number of defined contribution schemes.

For the defined benefit scheme, the amounts charged to operating surplus are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the revenue account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other financial costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes the amount charged to the revenue account in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

### SHARE BASED PAYMENT

The Society has applied the requirements of FRS 20 "Share Based Payment". The Society issues equity-settled share-based payment to employees who opt to join the all employee share option plan. Equity-settled share-based payments are measured at fair value at the date of the grant. This is expensed in the revenue account.

### EXCEPTIONAL ITEMS

Exceptional items include significant exceptional transactions and material one-off items. The Society considers such items are material to the Revenue Account and their separate disclosure is necessary for an appropriate understanding of the Society's financial performance.





| | notes | 2010-11 existing £000 | 2010-11 acquisitions £000 | 2010-11 total £000 | 2009-10 total £000 |
|---|---|---|---|---|---|
| **turnover** | | 361,995 | 16,194 | 378,189 | 353,934 |
| value added tax | | (37,730) | (1,904) | (39,634) | (31,596) |
| **sales** | 25 | 324,265 | 14,290 | 338,555 | 322,338 |
| cost of sales | | (218,124) | (11,127) | (229,251) | (217,653) |
| **gross profit** | | 106,141 | 3,163 | 109,304 | 104,685 |
| net expenses | 1 | (97,534) | (3,897) | (101,431) | (97,417) |
| **operating surplus** | 25 | 8,607 | (734) | 7,873 | 7,268 |
| operating surplus excluding exceptional expenses | | 9,081 | 12 | 9,093 | 10,236 |
| exceptional operating expenses | 3 | (474) | (746) | (1,220) | (2,968) |
| operating surplus | | 8,607 | (734) | 7,873 | 7,268 |
| share of joint venture operating (loss)/surplus | 3 | (23) | - | (23) | 6 |
| surplus on disposal of fixed assets | 3 | 5,496 | - | 5,496 | 230 |
| **surplus before finance charges** | | 14,080 | (734) | 13,346 | 7,504 |
| net finance charges | 4 | | | (1,516) | (1,333) |
| **surplus for year before distributions** | | | | 11,830 | 6,171 |
| distributions | | | | | |
| share interest | | | | (94) | (96) |
| grants/donations | 5 | | | (570) | (514) |
| **surplus for the year before taxation** | | | | 11,166 | 5,561 |
| taxation | 6 | | | (1,584) | (1,277) |
| **surplus for the year** | 16 | | | 9,582 | 4,284 |

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| **group statement of total recognised gains and losses** | | |
| surplus for year | 9,582 | 4,284 |
| actuarial gain/(loss) relating to the pension scheme (net of tax) (note 21) | 740 | (4,280) |
| unrealised loss on investment properties revaluation | (69) | (102) |
| total gains and losses recognised since last annual report | 10,253 | (98) |

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| **group note of historical cost profits and losses** | | |
| surplus for year before taxation | 11,166 | 5,561 |
| realisation of property revaluation gains of earlier years | 73 | 46 |
| historical cost surplus for year before taxation | 11,239 | 5,607 |
| historical cost surplus for year after taxation | 9,655 | 4,330 |





| | notes | 2010-11 £000 | 2010-11 £000 | 2009-10 £000 | 2009-10 £000 |
|---|---|---|---|---|---|
| **fixed assets** | | | | | |
| intangible assets | 7 | | 32,665 | | 13,279 |
| tangible assets | 8 | | 129,278 | | 126,581 |
| investments | 9 | | 1,309 | | 1,331 |
| | | | 163,252 | | 141,191 |
| **current assets** | | | | | |
| stocks - goods for resale | | 29,517 | | 24,794 | |
| debtors and prepayments | 10 | 8,947 | | 6,130 | |
| cash at bank and in hand | | 3,910 | | 3,870 | |
| | | 42,374 | | 34,794 | |
| **current liabilities** | | | | | |
| amounts falling due within one year | | | | | |
| bank overdraft (secured) | | (47) | | (3,955) | |
| creditors | 11 | (44,648) | | (41,564) | |
| | | (44,695) | | (45,519) | |
| **net current liabilities** | | | (2,321) | | (10,725) |
| **total assets less current liabilities** | | | 160,931 | | 130,466 |
| **long term liabilities** | | | | | |
| amounts falling due after more than one year | | | | | |
| creditors | 12 | | (50,121) | | (28,456) |
| **provisions for liabilities** | | | | | |
| deferred taxation | 14 | | (378) | | (416) |
| **net assets excluding pension liability** | | | 110,432 | | 101,594 |
| **pension liability** | 21 | | (10,026) | | (11,509) |
| **net assets** | 25 | | 100,406 | | 90,085 |
| financed by | | | | | |
| share capital | 15 | | 5,162 | | 5,094 |
| reserves | 16 | | 95,244 | | 84,991 |
| **shareholders' funds** | 17 | | 100,406 | | 90,085 |

The financial statements of Scottish Midland Co-operative Society Limited were approved by the Board of Directors and authorised for issue on 31 March 2011. They were signed on its behalf by:

Hollis Smallman **President**
Harry Cairney **Vice President**
John Dalley **Secretary**

| | notes | £000 | 2010-11 £000 | £000 | 2009-10 £000 |
|---|---|---|---|---|---|
| **net cash inflow from operating activities** | 22 | | 11,794 | | 13,425 |
| **joint ventures and associates** | | | | | |
| share of joint venture operating (loss)/surplus | | | (23) | | 6 |
| **returns on investment and servicing of finance** | | | | | |
| interest and dividends received | | 156 | | 185 | |
| interest paid | | (1,188) | | (960) | |
| share interest paid, grants and donations | | (664) | | (610) | |
| **net cash outflow from returns on investment and servicing of finance** | | | (1,696) | | (1,385) |
| **taxation** | | | | | |
| corporation tax paid | | | (1,509) | | (2,173) |
| **capital expenditure and financial investment** | | | | | |
| sale of fixed asset investments | | - | | (8) | |
| receipts from sales of tangible fixed assets | | 10,820 | | 1,257 | |
| payments to acquire tangible fixed assets | | (11,951) | | (13,712) | |
| | | | (1,131) | | (12,463) |
| **acquisitions and disposals** | | | | | |
| acquisition of subsidiary | 19 | (14,221) | | - | |
| other acquisitions | 18 | (915) | | (682) | |
| | | | (15,136) | | (682) |
| net cash outflow before financing | | | (7,701) | | (3,272) |
| **financing** | | | | | |
| bank loans advanced | | 26,500 | | 11,000 | |
| repayment of bank loans | | (14,500) | | (9,375) | |
| members share capital issued net of withdrawals | | 68 | | 73 | |
| repayment of finance leases | | (441) | | (1,262) | |
| repayment/(receipt) of interest in joint venture | | 22 | | (41) | |
| net cash inflow from financing | | | 11,649 | | 395 |
| **increase/(decrease) in cash** | 23 | | 3,948 | | (2,877) |





| **1. net expenses** | | 2010-11 existing £000 | 2010-11 acquisitions £000 | 2010-11 total £000 | 2009-10 total £000 |
|---|---|---|---|---|---|
| personnel costs | | 44,748 | 2,103 | 46,851 | 43,296 |
| occupancy costs (excluding depreciation) | | 17,593 | 848 | 18,441 | 17,018 |
| depreciation of owned assets | | 7,614 | 210 | 7,824 | 6,538 |
| depreciation of assets held under finance leases | | 889 | - | 889 | 1,308 |
| amortisation of goodwill | | 875 | - | 875 | 846 |
| operating lease rentals - equipment and vehicles | | 383 | - | 383 | 306 |
| fees - directors and committee members | | 121 | - | 121 | 134 |
| expenses and delegations - directors and committee members | | 42 | - | 42 | 73 |
| auditors' remuneration | | 72 | 19 | 91 | 65 |
| other expenses | | 24,723 | (29) | 24,694 | 24,865 |
| | | 97,060 | 3,151 | 100,211 | 94,449 |
| exceptional items - impairment of goodwill | note 3 | 145 | - | 145 | - |
| exceptional items - other costs | note 3 | 329 | 746 | 1,075 | 2,968 |
| | | 97,534 | 3,897 | 101,431 | 97,417 |

Included within expenses is £7,041,000 relating to operating lease rentals for land and buildings (2009-10 - £6,143,000).

| **auditors' remuneration - other services** | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| tax services | 83 | 154 |
| corporate finance services | 267 | 35 |
| pension scheme audit | 4 | 4 |
| other services | 1 | 3 |
| | 355 | 196 |

| **2. employees** | 2010-11 total number | 2009-10 total number |
|---|---|---|
| the average number employed was: | | |
| full time | 1,355 | 1,195 |
| part time | 3,323 | 2,888 |
| | 4,678 | 4,083 |

| the costs incurred in respect of these employees were | existing £000 | acquisitions £000 | total £000 | total £000 |
|---|---|---|---|---|
| wages and salaries | 41,145 | 1,982 | 43,127 | 40,273 |
| social security costs | 2,611 | 111 | 2,722 | 2,477 |
| other pension costs | 992 | 10 | 1,002 | 546 |
| | 44,748 | 2,103 | 46,851 | 43,296 |

**2. employees - continued**

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| **directors' emoluments** | | |
| the total remuneration of the directors for their board duties was | | |
| fees and delegations | 111 | 126 |
| redundancy | - | 58 |

| | number | number |
|---|---|---|
| the average number of directors whose emoluments fell into each £2,500 bracket was | | |
| £2,501 - £5,000 | 1 | - |
| £5,001 - £7,500 | - | 4 |
| £7,501 - £10,000 | 9 | 7 |
| £10,001 - £12,500 | - | 2 |
| £12,501 - £15,000 | 1 | - |
| £17,501 - £20,000 | 1 | 1 |
| | 12 | 14 |

| **management executive emoluments** | £000 | £000 |
|---|---|---|
| the total remuneration of the management executive was | | |
| wages & salaries | 1,013 | 971 |
| taxable benefits | 80 | 78 |
| pension costs | 193 | 170 |
| profit-related pay and long-term incentive scheme | 115 | 475 |
| | 1,401 | 1,694 |

the number of management executives whose emoluments, excluding pension and benefits fell in each £10,000 bracket was

| | number | number |
|---|---|---|
| £90,001 - £100,000 | 2 | - |
| £100,001 - £110,000 | - | 1 |
| £110,001 - £120,000 | 1 | - |
| £120,001 - £130,000 | - | 1 |
| £140,001 - £150,000 | - | 1 |
| £180,001 - £190,000 | 1 | - |
| £230,001 - £240,000 | 1 | - |
| £240,001 - £250,000 | - | 1 |
| £310,001 - £320,000 | - | 1 |
| £390,001 - £400,000 | 1 | - |
| £510,001 - £520,000 | - | 1 |
| | 6 | 6 |



Notes to the Group Accounts

**3. exceptional items**

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| goodwill impairment | (145) | - |
| business integration costs | (1,075) | (2,968) |
| | (1,220) | (2,968) |
| share of joint venture operating (loss)/surplus | (23) | 6 |
| gain on sale of fixed assets | 5,496 | 230 |
| | 4,253 | (2,732) |

Business integration costs primarily relate to the acquisition of Botterills Convenience Stores Limited (Botterills).

| **4. net finance charges** | £000 | 2010-11 £000 | £000 | 2009-10 £000 |
|---|---|---|---|---|
| **interest payable** | | | | |
| bank overdraft and loan | 1,080 | | 852 | |
| finance leases | 38 | | 47 | |
| other interest | 70 | | 61 | |
| interest cost on pension scheme liabilities | 2,778 | | 2,600 | |
| | | 3,966 | | 3,560 |
| **less - interest receivable and investment income** | | | | |
| expected return on pension scheme assets | 2,294 | | 2,042 | |
| unlisted investments | 75 | | 80 | |
| other interest | 80 | | 70 | |
| joint venture | 1 | | 35 | |
| | | 2,450 | | 2,227 |
| | | 1,516 | | 1,333 |

| **5. grants / donations** | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| member relation activities & grants | 481 | 448 |
| donations | 89 | 66 |
| | 570 | 514 |

Notes to the Group Accounts

## 6. taxation

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| **current taxation** | | |
| UK corporation tax charge for the year | 1,877 | 1,642 |
| adjustment in respect of prior years | (649) | (273) |
| **total current taxation** | 1,228 | 1,369 |
| **deferred taxation** | | |
| origination and reversal of timing differences | 416 | 14 |
| adjustment in respect of acquisition | (86) | - |
| adjustment in respect of prior years | (97) | (106) |
| adjustment due to change of tax rate to 27% | 123 | - |
| **total deferred taxation** | 356 | (92) |
| **total taxation charge** | 1,584 | 1,277 |

**factors affecting tax charge for the year**

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| surplus before tax | 11,166 | 5,561 |
| tax on surplus at standard rate of corporation tax in the UK of 28% (2009-10 28%) | 3,126 | 1,556 |
| factors affecting charge for the year | | |
| expenses not deductible for tax | 528 | 468 |
| depreciation in excess of capital allowances | 479 | 305 |
| movement in short term timing differences | (254) | (547) |
| income not taxable for tax purposes | (2,095) | (269) |
| chargeable gains | 93 | 129 |
| adjustments to tax in respect of prior years | (649) | (273) |
| **current tax charge for the year** | 1,228 | 1,369 |

No provision has been made for deferred tax on revaluing property to its market value. The tax on the gains arising from the revaluation would only become payable if the property were sold without rollover relief being available. These assets are expected to be used in the continuing operations of the business and, therefore, no tax is expected to be paid in the foreseeable future.

Additionally, no deferred tax has been provided in respect of certain historical gains on disposal of fixed assets as such tax would only become payable if the replacement asset is sold without rollover relief being obtained. The tax which would be payable in such circumstances has not been quantified in the absence of March 1982 values.

## 7. intangible assets

| **goodwill** | £000 |
|---|---|
| **cost** | |
| 30 January 2010 | 31,676 |
| acquisition of subsidiary (see note 18) | 19,836 |
| other acquisitions (see note 18) | 570 |
| 29 January 2011 | 52,082 |
| **amortisation** | |
| 30 January 2010 | 18,397 |
| provided for the year | 875 |
| impairment | 145 |
| 29 January 2011 | 19,417 |
| balance sheet value at 29 January 2011 | 32,665 |
| balance sheet value at 30 January 2010 | 13,279 |

Additions in the year relate to the difference between the consideration paid and the fair value (which is assessed by the Directors as being open market value on the basis of existing use) of assets acquired.

## 8. tangible fixed assets

| | land & buildings £000 | investment properties £000 | plant transport & fixtures £000 | total £000 |
|---|---|---|---|---|
| **cost or valuation** | | | | |
| 30 January 2010 | 36,682 | 65,282 | 94,013 | 195,977 |
| additions | - | 633 | 13,401 | 14,034 |
| disposals | (6,550) | (207) | (11,854) | (18,611) |
| acquisitions (see note 18) | - | - | 2,623 | 2,623 |
| reclassification | (691) | 393 | - | (298) |
| revaluation | - | (69) | - | (69) |
| 29 January 2011 | 29,441 | 66,032 | 98,183 | 193,656 |
| **depreciation** | | | | |
| 30 January 2010 | 11,781 | - | 57,615 | 69,396 |
| provided for the year | 724 | - | 7,989 | 8,713 |
| disposals | (3,009) | - | (10,579) | (13,588) |
| impairment | 1 | - | 154 | 155 |
| reclassification | (298) | - | - | (298) |
| 29 January 2011 | 9,199 | - | 55,179 | 64,378 |
| balance sheet value at 29 January 2011 | 20,242 | 66,032 | 43,004 | 129,278 |
| balance sheet value at 30 January 2010 | 24,901 | 65,282 | 36,398 | 126,581 |

The net book value of the Society's fixed assets includes £2,714,000 (2009-10 - £2,000,000) in respect of assets held under finance leases.

All assets under finance leases are held within plant, transport & fixtures.

Investment properties were valued independently as at 29 January 2011 at open market value on the basis of existing use by D M Hall Chartered Surveyors. The valuation was arrived at on the basis of an inspection and survey of a sample of the Society's total investment properties.

### 9. fixed asset - investments

| | 2010-11 shares £000 | 2009-10 shares £000 |
|---|---|---|
| **unlisted** | | |
| C W S Ltd | 1,252 | 1,252 |
| other I & P Societies | 1 | 1 |
| others | 18 | 18 |
| joint ventures | 30 | 52 |
| | 1,301 | 1,323 |
| **listed** | | |
| others | 8 | 8 |
| | 1,309 | 1,331 |

The market value of the listed investments at 29 January 2011 was £23,000 (2009-10 - £23,000).

The group has an interest in three joint ventures. The principal activity of these companies is property development and they are incorporated in Great Britain and registered in Scotland.

Scotmid - Miller (South Queensferry) Limited is now a dormant company. The Society's investment in this joint venture represents 50% of the equity share capital at cost as shown below. The Society's investment in Scotmid - Miller (Great Junction Street) Limited and Scotmid - Bett (Fountainbridge) Limited represents 50% of assets in the balance sheets also shown below.

| | shares £ |
|---|---|
| Scotmid - Miller (South Queensferry) Limited | 50 |

| | Scotmid - Miller (Great Junction Street) | | Scotmid - Bett (Fountainbridge) | |
|---|---|---|---|---|
| | 2010-11 £000 | 2009-10 £000 | 2010-11 £000 | 2009-10 £000 |
| gross assets | 29 | 24 | 42 | 469 |
| gross liabilities | (34) | (14) | (7) | (427) |
| net assets | (5) | 10 | 35 | 42 |
| net investment | (5) | 10 | 35 | 42 |

On 30 January 2003 the Society entered into certain guarantees in respect of obligations of Scotmid - Miller (Great Junction Street) Limited under its financing arrangements. In the event of a failure by Scotmid - Miller (Great Junction Street) Limited to meet certain obligations the guarantees require the Society (along with its joint venture partner) to meet any shortfall in interest payments, to fund any project cost overruns and to procure the completion of the project. On the basis that the property development within this joint venture has completed, no such liabilities are expected to arise.

### 10. debtors and prepayments due within one year

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| trade debtors | 490 | 359 |
| sundry debtors | 8,457 | 5,771 |
| | 8,947 | 6,130 |





### 11. creditors falling due within one year

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| trade creditors | 18,741 | 16,197 |
| holiday pay | 592 | 709 |
| VAT | 2,217 | 1,211 |
| other sundry creditors | 3,748 | 3,517 |
| accrued charges | 14,786 | 17,150 |
| PAYE and social security | 1,537 | 701 |
| bank loan (see note 12) | 1,500 | 1,500 |
| deferred consideration (see note 18) | 900 | - |
| obligations under finance leases (see note 12) | 342 | 300 |
| corporation tax | 285 | 279 |
| | 44,648 | 41,564 |

### 12. creditors falling due after more than one year

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| bank loans | 39,375 | 27,375 |
| deferred consideration (see note 18) | 8,400 | - |
| obligations under finance leases | 1,316 | - |
| other creditors | 1,030 | 1,081 |
| | 50,121 | 28,456 |
| borrowings are repayable as follows: | | |
| **bank loans** | | |
| between one and two years | 1,500 | 1,500 |
| between two and five years | 29,000 | 15,500 |
| after five years | 8,875 | 10,375 |
| | 39,375 | 27,375 |
| on demand or within one year | 1,500 | 1,500 |
| | 40,875 | 28,875 |
| **finance leases** | | |
| between one and two years | 367 | - |
| between two and five years | 949 | - |
| | 1,316 | - |
| on demand or within one year | 342 | 300 |
| | 1,658 | 300 |
| **deferred consideration** | | |
| between one and two years | 1,050 | - |
| between two and five years | 7,350 | - |
| | 8,400 | - |
| on demand or within one year | 900 | - |
| | 9,300 | - |
| **total bank loans, deferred consideration, and finance leases excluding bank overdraft** | | |
| between one and two years | 2,917 | 1,500 |
| between two and five years | 37,299 | 15,500 |
| after five years | 8,875 | 10,375 |
| | 49,091 | 27,375 |
| on demand or within one year | 2,742 | 1,800 |
| | 51,833 | 29,175 |

The above bank loans are secured by a bond and floating charge over all the assets of the Society.

The finance leases are secured on the assets to which they relate.

## 13. derivatives

The following table sets out the fair value for those derivatives that have not been included in the financial statements at fair value

| | book value | | fair value | |
|---|---|---|---|---|
| | 2010-11 | 2009-10 | 2010-11 | 2009-10 |
| derivative financial instruments held to manage interest rates | £000 | £000 | £000 | £000 |
| interest rate derivatives | - | - | (147) | (325) |

The Society's interest rate derivatives have been taken out to hedge interest rate risk on the bank loan. The Society does not enter into derivatives for speculative purposes.

## 14. deferred taxation

| | £000 |
|---|---|
| balance at 30 January 2010 | 416 |
| revenue account charge | (124) |
| amounts arising on acquisition of business | 86 |
| balance at 29 January 2011 | 378 |

| **the provision for deferred tax consists of the following amounts** | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| capital allowances in excess of depreciation | 591 | 759 |
| other timing differences | (213) | (343) |
| | 378 | 416 |

During the year, a change in the UK corporation tax rate from 28% to 27% was substantively enacted and the reduced rate was intended to be effective from 1 April 2011. The relevant deferred tax balances have been re-measured accordingly. Subsequent to the balance sheet date the UK corporation tax rate was further reduced to 26%, effective from 1 April 2011. This rate change was not substantively enacted at 29 January 2011 and has therefore not impacted the measurement of the deferred tax assets or liabilities at the balance sheet date.

Further reductions to the UK corporation tax rate have been announced which will reduce the UK corporation tax rate by 1% per annum until this reaches 24% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

Notes to the Group Accounts

## 15. share capital

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| at beginning of year | 5,094 | 5,021 |
| interest | 94 | 257 |
| contributions | 150 | 155 |
| | 5,338 | 5,433 |
| withdrawals | (176) | (339) |
| at end of year | 5,162 | 5,094 |

(i) share capital comprises 5,162,000 shares (2009-10 - 5,094,000) of £1 attracting interest at 2%.

(ii) shares are withdrawable on periods of notice in accordance with Rule 13, however, the directors retain the right to refuse notice of redemption.

(iii) each member is entitled to one vote.

## 16. movement on reserves

| | revenue reserve £000 | revaluation reserve £000 | total £000 |
|---|---|---|---|
| at 30 January 2010 | 54,470 | 30,521 | 84,991 |
| surplus for year | 9,582 | - | 9,582 |
| transfer of realised revaluation arising on disposal of properties | 73 | (73) | - |
| loss on revaluation of properties | - | (69) | (69) |
| actuarial gain relating to the pension fund | 740 | - | 740 |
| at 29 January 2011 | 64,865 | 30,379 | 95,244 |

## 17. reconciliation of movements in shareholders' funds

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| surplus after taxation | 9,582 | 4,284 |
| other recognised losses relating to year | (69) | (102) |
| contributions and interest less withdrawals of members' capital during year | 68 | 73 |
| actuarial gain/(loss) relating to the pension fund | 740 | (4,280) |
| net movement in shareholders' funds | 10,321 | (25) |
| opening shareholders' funds | 90,085 | 90,110 |
| closing shareholders' funds | 100,406 | 90,085 |

## 18. acquisitions

On 6 November 2010 the Society acquired 100% of the issued share capital of Botterills. This acquisition has been accounted for using the acquisition method of accounting. The fair value of the total consideration including stamp duty and acquisition costs was £20.92m. The provisional value of goodwill arising as a result of the acquisition is shown below.

| | consideration | acquisition costs | total |
|---|---|---|---|
| | £000 | £000 | £000 |
| Botterills | 20,402 | 516 | 20,918 |

The following table sets out the book values of the assets and liabilities acquired and their fair value

| | book value | accounting policy alignment | revaluation | note | fair value acquired |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | | £000 |
| goodwill | 5,029 | - | (5,029) | (i) | - |
| tangible fixed assets | 2,859 | (236) | - | (ii) | 2,623 |
| stock | 5,802 | (268) | - | (iii) | 5,534 |
| debtors | 2,186 | - | - | | 2,186 |
| creditors | (6,053) | - | (605) | (iv) | (6,658) |
| cash in hand | 129 | - | - | | 129 |
| bank overdraft | (1,732) | - | - | | (1,732) |
| bank loan | (1,000) | - | - | | (1,000) |
| net assets acquired | 7,220 | (504) | (5,634) | | 1,082 |
| goodwill on acquisition | | | | | 19,836 |
| total consideration | | | | | 20,918 |

**satisfied by**

| | |
|---|---|
| cash (including stamp duty) | 11,102 |
| deferred consideration | 9,300 |
| acquisition costs | 516 |
| | 20,918 |

Included in the fair value of assets acquired was a loan of £1m, which was repaid on completion of the acquisition of Botterills. The repayment of this debt and the cash consideration paid was financed through additional bank loans. The deferred consideration of £9.3m is repayable in instalments by 30 October 2015. The first annual instalment of £900,000 is repayable on 30 October 2011, and is shown within creditors (see note 11).

The book values disclosed above, before fair value adjustments, are extracted from the completion accounts of Botterills as at 6 November 2010.

(i) goodwill in the balance sheet of Botterills arising on previous transactions was eliminated in the fair value process in order to determine the total value of goodwill arising on the current acquisition.

(ii) the fair value adjustment in respect of tangible fixed assets represents a change in accounting policy for leasehold property fixed asset additions and depreciation.

(iii) the fair value adjustment represents a change in the method of valuing stock.

(iv) creditors have been revalued to include dilapidation provisions for certain leasehold trading properties.

An amount of £950,000 has been charged to the group revenue account in respect of costs incurrred in reorganising, restructuring and integrating Botterills in the period from 6 November 2010 to 29 January 2011.





## 18. acquisitions - continued

Botterills made a loss after tax of £335,000 in the period from 1 June 2010 to 29 January 2011. The summarised revenue account and statement of total recognised gains and losses for the period from 1 June 2010 to 6 November 2010 are as follows

| **revenue account** | **£000** |
|---|---|
| sales | 29,101 |
| cost of sales | (22,285) |
| gross profit | 6,816 |
| other operating expenses (net) | (6,428) |
| operating surplus | 388 |
| finance charges (net) | (91) |
| surplus for the period before taxation | 297 |
| taxation | 16 |
| surplus for the period | 313 |
| **statement of total recognised gains and losses** | |
| surplus for the period | 313 |
| total recognised gains and losses relating to the period | 313 |

**other acquisitions**

The Society purchased three other businesses during the year with the total consideration being £915,000 of which £570,000 related to goodwill. Tangible fixed assets of £264,000 were acquired and £60,000 of stock.

| **19. analysis of the net outflow of cash in respect of acquisition** | **2010-11 £000 net cash outflow** | **2009-10 £000 net cash outflow** |
|---|---|---|
| acquisition consideration | | |
| Botterills | (11,618) | - |
| cash acquired on acquisition | 129 | - |
| overdraft acquired on acquisition | (1,732) | - |
| bank loan acquired on acquisition | (1,000) | - |
| net outflow of cash in respect of acquisitions | (14,221) | - |

| **20. financial commitments** | **£000** | **£000** |
|---|---|---|
| future capital expenditure contracted for but not provided for | - | 1,343 |

This relates to refit work on stores.

## 21. accounting for pension costs

The Society contributes to a number of defined contribution pension schemes. The assets of these schemes are held separately from those of the Society in independently administered funds. The costs relating to these schemes of £121,000 (2009-10 - £108,000) are included within note 2.

The Society operates a defined benefit (final salary) funded pension scheme, the Scottish Midland Co-operative Society Pension Plan. The plan is no longer open to new entrants. The most recent full actuarial valuation was carried out at 26 January 2008. The actuarial valuation method used was the projected unit method. The actuarial assumptions which had the most effect on the result of the valuation were those relating to the rate of return on investments and the rate of increases in salaries and pensions. It was assumed that the investment return would be 6.9% pre retirement and 5.2% post retirement per annum, that the rate of salary growth would be 4.75% per annum, and the rate of pension increase for service between 05/04/97 and 05/04/05 would be 3.25% per annum, and from 06/04/05 would be 2.5% per annum. At the date of review, the market value of the funds' assets was £33,800,000 and the actuarial value of the assets represented 72.5% of the actuarial value of all benefits accrued to members at that date, after allowing for future wage increases.

Employer contributions made in respect of the accounting period amounted to £2,598,000 (2009-10 - £2,267,000) which includes a special contribution of £1,800,000 (2009-10 - £1,800,000) in line with the agreed Schedule of Contributions from the 26 January 2008 valuation. Employer contributions for 2011-12 are currently estimated to be £2,495,000.

This valuation has been updated by the actuary to 29 January 2011 in order to comply with FRS 17.

| **the major assumptions used by the actuary were** | | **at 29 Jan 2011** | **at 30 Jan 2010** | **at 31 Jan 2009** |
|---|---|---|---|---|
| rate of increases in salaries | | 4.90% | 4.70% | 4.50% |
| rate of increases in pensions accrued post 05/04/97 | LPI | 3.30% | 3.20% | 3.00% |
| | RPI (maximum) | 2.40% | 2.50% | 2.50% |
| rate of increase in deferred pensions | | 3.40% | 3.20% | 3.00% |
| discount rate | | 5.60% | 5.50% | 6.90% |
| inflation assumption | | 3.40% | 3.20% | 3.00% |
| expected return on the scheme assets | | 6.65% | 7.48% | 6.92% |
| life expectancy | male | 85.4 years | 85.2 years | 85.2 years |
| | female | 88.5 years | 88.3 years | 88.3 years |

The fair value of the assets in the scheme, the present value of liabilities in the scheme and the expected rates of return at each balance sheet date were

| | **2010-11** | | **2009-10** | | **2008-09** | |
|---|---|---|---|---|---|---|
| | **expected long term rate of return %** | **fair value £000** | **expected long term rate of return %** | **fair value £000** | **expected long term rate of return %** | **fair value £000** |
| equities | 8.10% | 19,817 | 8.00% | 16,058 | 8.25% | 11,615 |
| bonds | 5.60% | 19,708 | 5.50% | 19,103 | 6.90% | 15,596 |
| other | 1.50% | (195) | 1.50% | (63) | 1.50% | (21) |
| total market value of assets | 6.86% | 39,330 | 6.65% | 35,098 | 7.48% | 27,190 |
| present value of scheme liabilities | | (53,064) | | (51,083) | | (38,495) |
| deficit in scheme | | (13,734) | | (15,985) | | (11,305) |
| related deferred tax asset | | 3,708 | | 4,476 | | 3,165 |
| net pension liability | | (10,026) | | (11,509) | | (8,140) |

In setting the expected return on the assets as at 29 January 2011, we have taken into account the yields on government bonds and quality corporate bonds and the views of JLT in-house investment consultancy practice.





## 21. accounting for pension costs - continued

| **analysis of the movement in the scheme deficit in the year** | **2010-11 £000** | **2009-10 £000** |
|---|---|---|
| opening deficit in the scheme | (15,985) | (11,305) |
| current service cost | (891) | (445) |
| contributions | 2,598 | 2,267 |
| net financing charge | (484) | (558) |
| actuarial gain/(loss) | 1,028 | (5,944) |
| **closing deficit** | (13,734) | (15,985) |

| **amounts included within operating surplus** | **£000** | **£000** |
|---|---|---|
| current service cost | 891 | 445 |

| **amounts included in other finance costs** | **£000** | **£000** |
|---|---|---|
| expected return on pension scheme assets | (2,294) | (2,042) |
| interest cost on pension scheme liabilities | 2,778 | 2,600 |
| **net finance cost** | 484 | 558 |

| **reconciliation of present value of scheme liabilities** | **£000** | **£000** |
|---|---|---|
| opening defined benefit obligation | 51,083 | 38,495 |
| service cost | 891 | 445 |
| interest cost | 2,778 | 2,600 |
| contributions by employees | 477 | 468 |
| actuarial losses | 356 | 11,599 |
| benefits paid | (2,521) | (2,524) |
| closing defined benefit obligation | 53,064 | 51,083 |

| **reconciliation of present value of scheme assets** | **£000** | **£000** |
|---|---|---|
| opening fair value of the scheme assets | 35,098 | 27,190 |
| expected return | 2,294 | 2,042 |
| actuarial gains | 1,384 | 5,655 |
| contributions by employer | 2,598 | 2,267 |
| contributions by employees | 477 | 468 |
| benefits paid | (2,521) | (2,524) |
| closing fair value of the scheme assets | 39,330 | 35,098 |
| actual return on scheme assets | 3,678 | 7,697 |

## 21. accounting for pension costs - continued

### history of experience gains and losses

| | 2010-11 % | 2010-11 £000 | 2009-10 % | 2009-10 £000 | 2008-09 % | 2008-09 £000 | 2007-08 % | 2007-08 £000 | 2006-07 % | 2006-07 £000 |
|---|---|---|---|---|---|---|---|---|---|---|
| defined benefit obligation | | (53,064) | | (51,083) | | (38,495) | | (45,907) | | (48,029) |
| scheme assets | | 39,330 | | 35,098 | | 27,190 | | 33,719 | | 37,294 |
| deficit | | (13,734) | | (15,985) | | (11,305) | | (12,188) | | (10,735) |
| actual return less expected return on pension scheme assets | 3.5% | 1,384 | 16.1% | 5,655 | 31.0% | (8,431) | 13.8% | (4,662) | 0.3% | 129 |
| experience losses and gains arising on the scheme liabilities | 0.7% | (348) | 0.4% | 202 | 11.6% | 4,484 | 0.9% | (424) | 1.5% | 729 |
| changes in assumptions underlying the value of scheme liabilities | 0.0% | (8) | 23.1% | (11,801) | 10.3% | 3,962 | 8.0% | 3,687 | 5.6% | 2,705 |
| actuarial gain/(loss) before tax | 1.9% | 1,028 | 11.6% | (5,944) | 0.0% | 15 | 3.0% | (1,399) | 7.4% | 3,563 |

### amounts taken to the statement of total recognised gains and losses

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| actual return less expected return on pension scheme assets | 1,384 | 5,655 |
| experience (losses)/gains arising on the scheme liabilities | (348) | 202 |
| changes in assumptions underlying the value of scheme liabilities | (8) | (11,801) |
| actuarial gain/(loss) before tax | 1,028 | (5,944) |
| net cumulative actuarial losses since 25 January 2003 | (11,818) | (12,846) |



Notes to the Group Accounts

## 22. cash flow statement : reconciliation of surplus on ordinary activities to net cash inflow from operating activities

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| operating surplus | 7,873 | 7,268 |
| depreciation charges | 8,713 | 7,846 |
| amortisation of goodwill | 875 | 846 |
| impairment of goodwill | 145 | - |
| decrease/(increase) in stocks | 725 | (3,468) |
| (increase)/decrease in debtors | (631) | 331 |
| (decrease)/increase in creditors | (4,199) | 2,424 |
| movement in pension liability | (1,707) | (1,822) |
| net cash inflow from operating activities | 11,794 | 13,425 |

## 23. cash flow statement : reconciliation of net cash flow to movement in net debt

| | £000 | £000 |
|---|---|---|
| increase/(decrease) in cash for year | 3,948 | (2,877) |
| cash inflow from increase in debt and lease financing | (11,559) | (363) |
| change in net debt resulting from cash flows | (7,611) | (3,240) |
| new finance leases | (1,799) | - |
| movement in net debt for the year | (9,410) | (3,240) |
| opening net debt | (29,260) | (26,020) |
| closing net debt | (38,670) | (29,260) |

## 24. cash flow statement : analysis of net debt

| | at 30 Jan 2010 £000 | cash flow £000 | other non cash changes £000 | at 29 Jan 2011 £000 |
|---|---|---|---|---|
| cash at bank and in hand | 3,870 | 40 | | 3,910 |
| bank overdraft | (3,955) | 3,908 | | (47) |
| | | 3,948 | | 3,863 |
| debt due after 1 year | (27,375) | (26,500) | 14,500 | (39,375) |
| debt due within 1 year | (1,500) | 14,500 | (14,500) | (1,500) |
| finance leases | (300) | 441 | (1,799) | (1,658) |
| | | (11,559) | | (42,533) |
| total | (29,260) | (7,611) | (1,799) | (38,670) |

| **25. segmental reporting** | **sales** | | **operating surplus** | | **net assets** | |
|---|---|---|---|---|---|---|
| | **2010-11** | **2009-10** | **2010-11** | **2009-10** | **2010-11** | **2009-10** |
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| class of business | | | | | | |
| retail / wholesale | 333,936 | 317,718 | 6,201 | 5,595 | 34,374 | 24,803 |
| property | 4,619 | 4,620 | 1,672 | 1,673 | 66,032 | 65,282 |
| continuing | 338,555 | 322,338 | 7,873 | 7,268 | 100,406 | 90,085 |

Botterills' trading results relate to retail/wholesale activities.

**26. operating lease commitments**

At 29 January 2011 the commitment to make payments during the next year in respect of operating leases was as follows

| | **land & buildings** | **plant transport & fixtures** | **land & buildings** | **plant transport & fixtures** |
|---|---|---|---|---|
| | **2010-11** | **2010-11** | **2009-10** | **2009-10** |
| | **£000** | **£000** | **£000** | **£000** |
| leases which expire | | | | |
| within one year | 394 | 155 | 219 | 193 |
| within two to five years | 2,274 | 395 | 1,956 | 127 |
| after five years | 5,659 | - | 4,032 | - |
| | 8,327 | 550 | 6,207 | 320 |





Notice is hereby given that an Annual General Meeting of the Society will be held on Wednesday, 27 April 2011 at 7.00 p.m. at the following places, The Hilton Edinburgh Grosvenor Hotel, Grosvenor Street, Edinburgh and the GLO Centre, 78 Muir Street, Motherwell.

## AGENDA OF BUSINESS

1. Synopsis of Minutes of Ordinary General Meetings held on 4 October 2010
2. Obituary References
3. Directors' Report/Annual Accounts
4. Appointment of Tellers
5. Elections for Regional Committees:
   **East Region** 4 Members to serve for 3 years and 1 Member for 2 years;
   **West Region** 4 Members to serve for 3 years
6. Synopses of Minutes of Board Meetings
7. Consideration of remuneration for Office Bearers and Directors:
   Present remuneration (per annum):
   **Central Board** President £9,945; Vice President £7,090; Minute Secretary £5,700; Directors £4,895
   **Regional Committees** Chairman £2,900; Vice Chairman £2,400; Treasurer £2,250; Minute Secretary £2,100; Committee Members £2,000; Tellers £5
8. Consideration of scale of Directors' Delegations and Attendance payments:
   Present Scale Day Payment £105; Part Day Payment £65; Attendance Payment £35
9. Consideration of Remuneration for Auditors
10. Society Co-operative Party Council Report
11. Society Co-operative Party Review Update
12. National Membership Strategy Update
13. Membership & Community Development Report
14. General business

## ADMISSION TO GENERAL MEETING

Members will be admitted to the General Meeting by presenting their Share Book and will be eligible to vote if they have held a minimum shareholding of £1.00 for a qualifying period of 6 calendar months from the date of their admission to membership. Only Members whose principle residential address lies within the geographic boundaries of that region will be entitled to vote for individuals to represent that region unless approval is granted by the Secretary in advance of the meeting.

The next General Meeting (Ordinary General Meeting) will be held on Monday 3 October 2011 at Edinburgh and Bathgate.

Board & Committee Members

| Board Directors | Board | General Purposes | Audit | Remuneration | Search |
|---|---|---|---|---|---|
| Mr H Smallman (P) | 12 | 7 | | | 3(C) |
| Mr H Cairney (VP) | 11 | 7 | | 3(C) | |
| Mr J Anderson | 10 | 3 | 2 | | |
| Mr I Bailey | 12 | | 3 | | 3 |
| Mr P Devenney (A 04/10/10) | 4 | | | | |
| Mr J Gilchrist | 12 | | | 3 | |
| Mr J Hill | 10 | | | | 1 |
| Mr D Jamieson | 12 | | | | 3 |
| Mr T McKnight | 12 | 7 | 3 | | |
| Mr D Paterson | 11 | | | 2 | |
| Mr J Watson | 12 | 3 | 2 (C) | | |
| Miss A Williamson | 12 | 6 | | 3 | |
| Total meetings held | 12 | 7 | 3 | 3 | 3 |

## KEY

P = President VP= Vice President MS = Minute Secretary T= Treasurer C= Committee Chair VC = Vice Committee Chair A = Appointed

The total number of meetings of the General Purposes Committee shown above includes 3 meetings relating to the Constitutional Review.

## DIRECTORS

Mr Devenney was elected by the members to serve as a Director at the OGM on 4 October 2010. He joined the Search Committee on 25 November 2010.

Mr Anderson is a Director of Co-operatives UK. Mr Smallman, Mr Cairney, Mr Jamieson and Mr Paterson are Trustees of The Scottish Midland Co-operative Pension Plan Limited

| East & North Regional Committee | |
|---|---|
| Miss A Williamson (C) * | 10 |
| Mr J Hill (VC) | 9 |
| Mr J Anderson (MS) | 8 |
| Mr D Jamieson (T) * | 8 |
| Mrs A Anderson | 8 |
| Mr H Cairney * | 10 |
| Mr K Kelly * | 9 |
| Mr J Mackenzie | 9 |
| Mr J Miller | 8 |
| Mr D Paterson | 10 |
| Mr D Reid | 10 |
| Mrs J Reid * | 10 |
| Mrs G Smallman | 9 |
| Mr H Smallman | 9 |
| Mrs M Smith | 9 |
| Total meetings held | 10 |

| West Regional Committee | |
|---|---|
| Mr T McKnight (C) | 10 |
| Mr J Watson (VC) | 10 |
| Mr J Gilchrist (T) * | 10 |
| Mr M Ross (MS) | 6 |
| Mr I Bailey * | 9 |
| Ms C Bartholomew # | 8 |
| Mr P Devenney * | 10 |
| Mr I Gilchrist (A 26/04/10) | 7 |
| Mr R Kelt | 10 |
| Mr D Muirhead | 9 |
| Mr A Simm (A 26/04/10) | 7 |
| | |
| | |
| | |
| | |
| Total meetings held | 10 |

## REGIONAL COMMITTEE MEMBERS

* Regional Committee Members due to retire by rotation in April 2011 and were nominated for re-election at the OGM 2010.

\# Ms Carol Bartholomew has withdrawn her nomination and will not stand for re-election at the AGM. She leaves the Society having served on the Member Relations Committee and Regional Committee with our appreciation for her service over the past 3 years.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