

# Annual Report

& Financial Accounts  
for year ended 25 January 2020



# Scotmid coop

 Fair Tax

Turnover  
up £7m to  
£385m

Trading profit  
up £0.3m to  
£5.6m

Net assets  
up £2m to  
£105m



Scotmid 

**OUR CORE PURPOSE:**

To serve our communities  
and improve people's  
everyday lives.

1,154 good cause  
groups benefitted  
from Scotmid  
Community Grants

£325k raised for our  
charity of the year  
partners 2018-19

Celebrated our  
160th Anniversary,  
culminating in a  
Guinness World Record

# CONTENTS

<a href="#">Board Directors &amp; Management Executive</a>	2
<a href="#">Directors' Report</a>	3-17
<a href="#">Group Five Year Summary</a>	18-19
<a href="#">Statement of Directors' Responsibilities</a>	20
<a href="#">Governance Report</a>	21-25
<a href="#">Corporate Social Responsibility</a>	26-28
<a href="#">Independent Auditor's Report</a>	29-30
<a href="#">Statement of Accounting Policies</a>	31-33
<a href="#">Group Profit and Loss Account</a>	34
<a href="#">Group Statement of Comprehensive Income</a>	35
<a href="#">Group Balance Sheet</a>	36
<a href="#">Group Statement of Changes in Shareholders Funds</a>	37
<a href="#">Group Cash Flow Statement</a>	38
<a href="#">Notes to the Group Accounts</a>	39-53
<a href="#">Board &amp; Regional Committee Members</a>	54-55

## Advisors and Registered Office

### Independent Auditor

KPMG LLP

### Bankers

HSBC UK Bank plc

### Solicitors

Anderson Strathern WS

### Registered Office

Hillwood House, 2 Harvest Drive, Newbridge, EH28 8QJ  
Society Registration Number SP2059RS

# Board Directors & Management Executive

## Board of Directors



Harry Cairney  
President



Sheila Downie



Iain Gilchrist



Kaye Harmon



Richard McCready



Jim Watson  
Vice President



John Miller



David Paterson



Michael Ross



Andy Simm



Grace Smallman



Eddie Thorn



Alexandra Williamson

For Board and  
Committee attendance  
see pages 54-55.

## Management Executive



John Brodie  
Chief Executive Officer



John Dalley  
Chief Financial Officer  
& Secretary



Stewart Dobbie  
Head of Innovation  
& Change



Maurissa Fergusson  
Head of Property &  
Facilities



Steve McDonald  
Head of People &  
Performance

## OVERVIEW



The Society were delighted to achieve the Guinness World Record for largest ever Burns Supper

### The Directors are pleased to present their report for the financial year ended 25 January 2020.

In a year dominated by Brexit uncertainty, Scotmid delivered positive growth with a trading profit of £5.6m compared to £5.3m last year. This performance was underpinned by strong sales growth with turnover of £385m, an increase of £7m on the last year. It very is pleasing that the Society can celebrate these positive results in our 160th anniversary year given the very unfavourable market background especially for our retail businesses. The Society strengthened its financial position further with net assets at a record level of £105m.

Food convenience faced significant cost increases but delivered consistently strong like-for-like sales underpinned by range improvements and innovation. The background market conditions for Semichem continued to be poor, particularly in Northern Ireland, but actions taken helped to deliver an underlying result ahead of last year. The funeral business had a challenging first half but recovered to finish strongly. Scotmid Property delivered good growth in rental income together with a positive asset valuation, reflecting the strength of the Edinburgh residential property market.

Our co-operative and community development activity in the year was focused on celebrating 160 years as a successful and thriving co-operative business. We invested a record £160,000 in our Member led Community Grant Scheme, which supports local

community groups, and a further £150,000 was awarded to 18 groups via our Community Connect scheme. The Society also supported a range of larger projects including the Upstream Battle campaign by Keep Scotland Beautiful. We finished the celebration year with our world record breaking Burns Supper. This was a fitting way to celebrate 160 years of co-operation with our Members, colleagues, suppliers, advisers and friends, who are now all world record breakers!

Last year-end we highlighted the cumulative burden of costs and the need to focus on innovation, effective investment and tight control of costs to continue to make progress in the unforgiving and uncertain retail market. Once again the Society has delivered despite the Brexit saga and another challenging year for retailers generally. We innovate and lead the way in food-to-go convenience retailing and our co-operative buying group has provided positive support and range development in the year. We continued to drive an effective investment strategy with strong cost control underpinning the overall Society result. Scotmid can therefore reflect on a positive 160th anniversary year but be mindful of the ever-growing cost challenge and the uncertainty around global events, particularly the COVID-19 pandemic. In the short-term, we must manage the significant issues arising from the virus outbreak but it is the continuous improvement philosophy and our core purpose (to serve our communities and improve people's everyday lives) that will continue to be our guide for the future.



## FOOD RETAIL

Scotmid's food convenience stores had a strong sales performance in the year with like-for-like sales growth well ahead of the Scottish market. This was achieved in a year dominated by Brexit uncertainty and without the benefit of the exceptional summer that boosted our sales in 2018. The sales growth was driven by an ongoing programme of range improvements including the further development of our market leading food-to-go convenience offer. We also benefitted from positive improvements in the co-operative buying group's range supplemented by local products for the benefit of our communities. The costs of trading continued to rise including employment costs, distribution charges and increased waste packaging levies.

The programme of store investment continued with a number of refurbishments completed, including sites in Uddingston, Inverness and Inverkeithing. The store refit programme featured new improved environmentally friendly fridges, food-to-go equipment and the new Scotmid Coop branding. We also acquired and refitted a new store in Coatbridge. Food-to-go infrastructure spend included "food on the move" units, digital screens, high volume ovens and upgraded coffee machines. Two joint food store and property investment projects commenced at Leven Street (Edinburgh) and Bo'ness. Temporary arrangements have been made at both sites to help minimise the impact on our customers during construction.



Above left: The new food store at Coatbridge.

Top right and below right: The refurbished food store at Glenurquhart, Inverness.

Our 160th anniversary was another year of innovation and continuous improvement to drive the food convenience business forward. Product development of the food-to-go range in the year included "Wing & Rib" bars, pizzas, burgers and self-serve ice cream. Local range development continued with our existing suppliers and by the introduction of new supplier products (e.g. Social Bite sandwiches and Growers Garden's broccoli crisps), promoted through our support of Scottish Food & Drink Fortnight. Working in partnership with Greencity Wholefoods, Scotmid became the first sizeable retailer in Scotland to introduce self-service dispensers to reduce

packaging use. In addition, a trial of the "Snappy Shopper" home delivery service was launched in two areas in West Lothian, with plans to extend the trial further in 2020. The implementation of central ordering for all grocery and non-food lines was also completed, providing an improvement in availability and consistency across our stores.

Overall, in Scotmid's 160th anniversary year our food convenience business delivered a very positive result to overcome the significant cost pressures and Brexit uncertainty in a highly competitive market.

# semichem



grab & go

The opening of the new trial store in Wishaw, which included a new food-on-the-go section



## SEMICHEM



In the context of a brutal market for non-food retailers on the high street, Semichem delivered an improved performance on last year and a substantially better performance than the market trend. The business worked hard to manage the fine balance between driving sales and margin during the year, in particular over the Christmas period with sales coming very late this year. Semichem's Scottish store sales were well ahead of the Scottish Retail Consortium non-food like-for-like performance but 2019 was another difficult year for our stores in Northern Ireland. The impact of Brexit uncertainty appeared to have a magnified effect in Northern Ireland. Tight management of the cost base and re-basing of the supply chain were essential in the delivery of our year-end result.

Work continued to develop and trial new formats for the long-term sustainable future of the business with two more trial stores at Larkhall and Wishaw. These trials included the introduction of coffee & snacking on the go and an increased range of food products. Some store upgrade works were also completed, including

new flooring, improved lighting and new fragrance counters. The Semichem central warehouse footprint was reduced to improve productivity with space created for sublet. The frequency of store deliveries was also rebased in-line with local demand and store stock room constraints.

Range and promotional continuous improvement activity also moved forward in the year. This included product innovation and successful first-to-market launches, working with new suppliers. New bundle deals were launched and the JML range extended to all stores. We continued to work with influencers with promotional activity focused on the featured products and matching this with new storage and lifestyle items. The appointment of a new marketing agency has also helped to develop new content and we re-balanced marketing spend with more focus on social and digital media to engage with our existing followers, attract new customers and drive footfall to our stores.



# FUNERAL



**Scotmid Funeral Plans**  
**From £1,295**

Pop in anytime to find out more. We'll put the kettle on...

**0800 996 1927**  
**scotmidfunerals.coop**

**Scotmid**  
**funerals**  
coop

**There When You Need Us**

Scotmid Funerals finished the year strongly helping to recover the shortfall experienced in the first half of the year. The introduction of our "Cremation Without Ceremony" funeral has added another alternative for clients alongside our bespoke full-service traditional funerals.

General demand for funeral plans reduced in the year due to the uncertain economic times and the ongoing H M Treasury review of funeral plans. Locally we also saw a significant increase in marketing activity by competitors. The Society welcomes the Treasury review and strong and effective regulation of this area. The government has stated that consumers may wish to consider using providers that are registered with the Funeral Planning Authority (FPA) until regulation comes fully into force, Scotmid is a registered provider with the FPA. The Competition and Markets Authority is also carrying out a two-year in-depth investigation into the funeral market

and some possible remedies have been published ahead of their final paper (which was originally due in summer 2020).

We continued our programme of investment, doubling the storage capacity of our mortuaries and refreshing our vehicle fleet with three Mercedes E Class limousines and a new hearse. A new cabin-style funeral office was opened in Prestonpans in the year and the Society's new branding has been installed at the Scotmid funeral branches. The funeral website was updated and re-branded and the new marketing agency has helped to reshape our marketing plans and finalise the brand guidelines.

An example of the new style advertising being used by the Funeral division.

# PROPERTY



An artist's impression of the new development at Leven Street, Edinburgh.

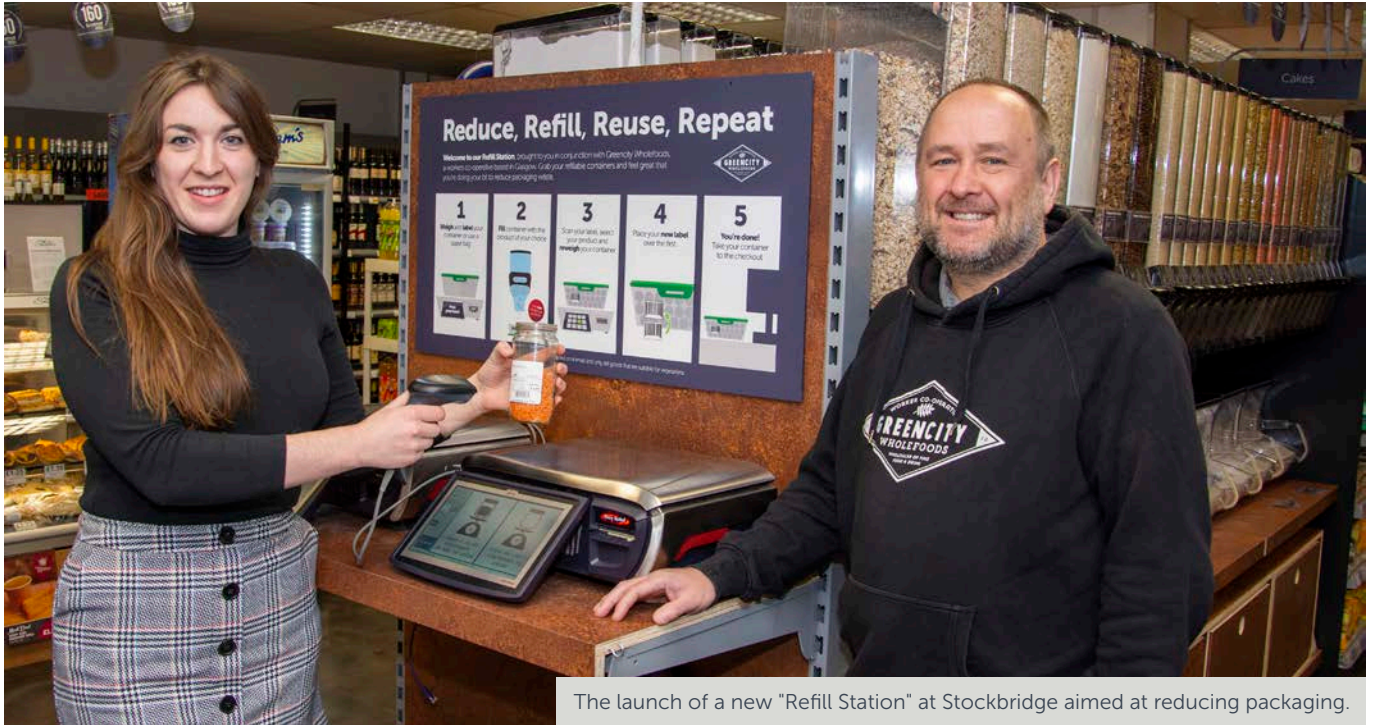
Scotmid Property's trading result moved forward again in the financial year with positive growth in commercial and residential rental income. We also benefitted from a £3m revaluation gain that helped to increase the capital value of the investment portfolio to over £94m.

These strong results were achieved despite notable uncertainties in macro-economic terms caused by the fluctuating Brexit position during 2019. Given the macro-economic uncertainty, transaction volumes on the commercial property market were down significantly year on year but the residential market remained relatively strong and posted growth during the year. We saw the benefit of this with strong growth in the capital value of our Edinburgh residential properties. The base interest rate remained unchanged at 0.75% during the year and the predicted future direction at our year-end was down which was supportive of property markets and our year-end property revaluation.

Rental income growth was driven by successful new lettings but also standard rent increases reflecting inflation. This included the letting of the last two units within our refurbished Newbridge warehouse asset adjacent to the Scotmid Head Office.

The focus for investment in the year was on two major construction projects. In Edinburgh we are redeveloping and refitting the Leven Street foodstore and building eight lettable flats in the airspace above for the investment property portfolio. In Bo'ness we are completing a total re-development of the foodstore with two neighbourhood retail units for the investment portfolio. In-line with our diversification strategy we also sold two legacy retail properties in Penicuik and Carluke town centres, the former to a local tenant and the latter following a successful lease renewal to a national operator.

# SOCIETY MATTERS & CENTRAL SUPPORT



The launch of a new "Refill Station" at Stockbridge aimed at reducing packaging.

Scotmid's surplus after tax for the financial year was £4.5m. As well as a positive trading performance, this result also included a number of non-recurring items within exceptional costs, a gain on sale and a revaluation gain. The revaluation gain of £3m on our investment property portfolio was mainly driven by strong growth in the value of the Society's residential investment properties in Edinburgh. The discount rate used to value our pension scheme liabilities reduced from 2.70% at January 2019 to 1.75% this year end. This was the most significant factor underlying a £2.6m increase in the Society's pension scheme deficit, mitigated by a strong investment performance and additional cash contributions made by the Society. Overall, it was another positive year for the Society financially, with over £4m of cash flow generated in the year, reducing net debt to £25.4m. This cashflow benefitted from contingency measures put in place for Brexit but also some significant timing differences relating to major capital projects that were in progress at the year-end. The Society's balance sheet strengthened further as shareholders' funds and net assets increased by £2m to £105m.

Scotmid continues to support our communities in a range of different ways. Through the Society's complementary diversification strategy, we continue to invest and partner with promising local businesses. We have a minority (33%) investment in The Start-up

Drinks Lab, a Scottish business that provides product development, bottling and manufacturing services to craft soda soft drinks companies. In 2019, it saw strong sales growth and work continued on development of own-brand products, with a trial of "Sparklingly Sober" in Scotmid stores over the festive period. Plans for 2020 include a renewed focus on product development and innovation.

In April 2019 the Society also made a small investment in Product Guru, a Glasgow based on-line start-up business that helps to match supplier products with retailers. During the year, we provided our retail insight to help Product Guru develop their process to on-board retailers. Work is ongoing to further develop the platform and expand the existing range of supplier products listed. The business concept was recognised recently when Product Guru was awarded a Scottish Edge new business award.

Scotmid's central teams support the Society's trading business and facilitate a range of continuous improvement activity. For example, the launch of the "Snappy Shopper" trial, a mobile-based home delivery service launched in selected food stores. Digital displays have been installed in 10 food stores to present our food-to-go offering dynamically. Web-based reporting has been deployed to support our field based Regional Managers to provide easier access to management information and stock data. The Society

# MEMBERSHIP DEVELOPMENT COMMUNITY & CHARITY ACTIVITY



Social Bite, the social enterprise dedicated to ending homelessness in Scotland, entered into its first retail partnership with Scotmid.

has a comprehensive process to minimise health & safety risks managed by our specialist in-house team. Our latest initiative was the launch of the “See it, Clean it, Remove it, Improve it” in-store campaign to bring additional focus to the risk of slip, trip and fall accidents.

The Society’s retail graduate scheme was launched with two graduates joining the programme, one jointly funded with Scottish Food and Drink. Over the course of the year, 24,000 training hours were delivered together with new onsite workshops (ranging from Supervisor Development to Mental Health Awareness) that were developed with Edinburgh College. Scotmid is committed to the protection of our colleagues with continued investment in security and staff-safety solutions. The Society has also supported a proposed parliamentary bill to protect shop workers from violence, which is currently at consultation stage at the Scottish Parliament.

## Membership Development Community & Charity Activity

A major focus in 2019/20 was the celebration of the Society’s 160th birthday. A range of activities were organised to raise the profile of the Society and to reward colleagues, Members, customers and the local communities in the trading areas and to celebrate 160 years of co-operation. Our democratically-elected Regional Committees distributed £160,000 in community grants to 1,154 community groups in the year, amounting to an additional £25,000 on last year. In our birthday week in November, stores fundraised over £20,000 for our charity of the year, we thanked local Community Champions with a card and gift and our commemorative Society tartan was launched. Birthday celebrations culminated on 24 January 2020 with the Society achieving the world record for the largest Burns Supper. The event was strongly supported by suppliers, Members, colleagues, friends and co-operators from across the UK and provided the opportunity to showcase the Society. Press and social media coverage for our birthday celebrations increased significantly, raising the profile of the Society.



**Fair Tax**

The Society has held the Fair Tax Mark accreditation since 2016, demonstrating that we pay the right amount of tax in the right way at the right time.

# MEMBERSHIP DEVELOPMENT COMMUNITY & CHARITY ACTIVITY



## Other Community and Charitable Activities

Community Connect continued to be well received with £150,000 donated to 18 good cause groups during the year. Plans to roll out Community Connect in the Lakes & Dales area have progressed with the establishment of a Lakes & Dales Member Panel to approve Community Grants and act as the Community Connect Selection Panel. Community Connect cards for the Lakes & Dales area will be distributed in 2020. A Lakes & Dales community information event was held in October 2019, which was successful in promoting the Society's community message, and will be developed further with trials of community engagement at smaller, local events.

The Society provided support to a variety of charities using proceeds of single use carrier bags, including: Keep Scotland Beautiful's Upstream Battle and Spring Clean 2019 campaign, 3,000 festive meals and toiletries given to charities supporting the homeless at Christmas and support provided to the cooperation band. The Society hosted the annual Scottish Fairtrade Forum in November and also supported Fairtrade groups and events with Fairtrade donations.

At the end of August 2019, the Society's successful charity partnership with SSPCA, RSPCA and USPCA ended with £325,000 raised by Members, colleagues and customers, bringing the total raised to over £2m

in the past six years. Chest Heart & Stoke Scotland, Northern Ireland and Different Strokes in northern England became the new charity partner with the aim of raising funds to provide rehabilitation services, purchase new equipment and help to increase awareness of the support available to others who are struggling with the effects of a stroke.

## Political Donations

Donations to the national Co-operative Party amounted to £14,000 and the Scottish Co-operative Party of £5,000.

## COVID-19 Pandemic

The main focus of this report is looking back over Scotmid's financial year ending on the 25 January but this report was finalised in April 2020 during the COVID-19 pandemic lockdown period in the UK. Therefore, given the unprecedented circumstances of the current crisis, the Board has decided to cover this matter in this separate section of the Directors report.

The overriding priority at the moment is the health & safety of wider Society and support for the broad range of workers providing care and front line services. For Scotmid, our colleagues in our food stores and funeral homes are in the front line with a wide range of support from other colleagues to help keep food on our shelves



Opposite page: Our partnership with Scottish SPCA, RSPCA & USPCA concluded in August 2019 with £325,000 having been raised for the charity partnership.

Above: Our new charity partnership supporting Chest, Heart & Stroke Scotland, Different Strokes (England) and Chest, Heart & Stroke Northern Ireland launched in September 2019.

and care for families at a most distressing time. This is a time for co-operation and Scotmid is doing everything we can to support and deliver Government plans to help the UK get through this pandemic. We have the benefit of 160 years of reserves built up to help deliver this. In relative terms we are in a position of strength compared to many other businesses because of the diversity of our operations but this also brings additional pressure and complexity. Semichem and our Property Business are both significantly impacted by the lockdown but our food convenience stores and funeral offices are delivering essential services and have continued to operate. This has involved a range of actions and changes to the way we normally operate to ensure social distancing and to switch to remote working for our support functions. As a community based co-op we have set up a specific fund to help our communities through the crisis, particularly the small local self-help groups that are providing support to the vulnerable and isolated. In-line with the guidance we have postponed our AGM until September but otherwise the normal democratic functions of the Society will continue

remotely through the lockdown period. Scotmid has served our communities and improved people's everyday lives for 160 years, assisted by some of the business support measures available, we have the resources and diversity of businesses to get through this crisis and continue to serve our communities and members in the future.

On behalf of the Directors, I would like to thank all Members, customers and colleagues for their support over the year. In particular, an extra special thank you to all the Society's front-line colleagues who are adapting to new ways of working to provide essential services throughout the current lockdown period.

Signed on behalf of the Directors

Harry Cairney  
Society President

# COMMUNITY CASE STUDIES

In 2019, 1,154 local good cause groups successfully applied for a Community Grant and were awarded funding which enabled them to bring projects to life in their communities.



## WEST REGION

**The People's Pantry** based next door to our Coatbridge store, is serving local families who are experiencing financial difficulties. The People's Pantry is a food bank and advice centre signposting people to agencies who can provide help and guidance. In addition to providing the premises, the West Regional Committee awarded a £500 grant which has been used to purchase shelving units, a sofa, tables and chairs for the waiting area. Katrina McGhee said "Scotmid has been so kind and generous; we couldn't have better neighbours and you have demonstrated the real meaning of Community"

Details of more Community Grants and activity can be found at [scotmid.coop](https://scotmid.coop)





## EAST REGION

Leith Rugby Club are a true community club who take pride in their local roots. On the back of a week of community activities from litter picks, beach cleans, food bank collections, charity fundraising and hosting an open day for local children they managed to squeeze in a photograph outside our Pilrig store. "Thank you so much from of all us for the funding to purchase new training balls, it means a huge amount to have local support for our local club."



## NORTH REGION

Burghead Coastal Rowing Club were absolutely delighted to be awarded a grant. They set to work making templates for cushions for the boat. They used a company in Portsoy who were able to make cushions exactly to their specifications and in their beloved teal colour! Obviously they had to be waterproof and they had to be able to be secured, so no slippage.

"We are delighted with the results, already these cushions have had an outing on the Clyde and on Loch Ness as well as in our own harbour. Thank you from us all [ages 12 to 72!]" Julie, BCRC Captain



## LAKES & DALES REGION

Weardale Warblers was set up in 2017 as a community choir, aiming to address social and rural isolation and alleviate loneliness. It was truly open to anyone who wanted to take part and have fun through singing. The group has gone from strength to strength and now has over 30 members ranging in ages from 10 to 80+. When the Warblers began to be asked to perform at local events they wanted to establish a sense of identity, so they used their Community Grant to purchase personalised polo shirts, which they now proudly wear at their performances.



# 160<sup>TH</sup> ANNIVERSARY CELEBRATIONS

**A milestone that everybody – Members, staff and customers – can be proud of.**

The opening of our first grocery store in Ponton Street, Edinburgh in November 1859, was a truly monumental event – a modest start that led to an everlasting presence in the Scottish retail landscape.

Over the past 16 decades, our core purpose has stayed the same – to serve our communities and to improve people’s everyday lives. Scotmid are living and breathing proof that applying co-operative values and principles can work.

The ancient dream of 12 ordinary workmen is still alive, well and relevant in modern Scotland – thanks to all our Members, customers and staff, who have contributed to our success story.

“We’re incredibly proud of the fact we’ve been part of the local landscape for the past 160 years and the role that we’ve played in serving communities and improving people’s everyday lives. It is pleasing to think that we operate with the same values and principles as the pioneers agreed back in 1859. Thanks to all our Members and customers for the support we’ve received over the past 160 years and we look forward to serving them in the future.” John Brodie, Scotmid Chief Executive

“It was with immense pride and gratitude that I accepted the role of President of our Society five years ago and it is a real honour to be able to lead Scotmid into our 160th anniversary celebrations. My first ever job when I left school was with St Cuthbert’s, so I never thought in my wildest dreams that one day I would be President of the Society. I’ve been involved with Scotmid for 43 years and, although plenty has changed in the world during that time, one factor has remained constant – our values and principles. That provides me with a great sense of satisfaction that our core purpose has been a constant for all that time.” Harry Cairney, Scotmid President.

## Scotmid 160th Anniversary Tartan

Scotmid marked St Andrew’s Day by launching a special tartan produced in conjunction with Perthshire-based The House of Edgar, as part of the Society’s 160th anniversary celebrations.

The tartan, which incorporates the popular Scotmid blue, is a distinctive design that encapsulates the role Scotmid has played at the heart of local communities over the past 16 decades – instantly recognisable and warmly familiar.

Scotmid President Harry Cairney said: “Commissioning a tartan, a national symbol of Scottish heritage, seems



a fitting way to mark our anniversary and celebrate the important role Scotmid has played in Scottish communities over the past 160 years."

### FUNdraising through the decades...

During the anniversary week, each store was encouraged to raise £160 for the Society's Charity Partners 2019/20, Chest Heart and Stroke Scotland, Northern Ireland Chest Heart & Stroke and Different Strokes in Northern England.

As always, colleagues enthusiastically rose to the challenge. From hair dyes to dress ups, there was plenty going on in-store to keep everyone amused!

With thanks to our customers who continuously support and encourage our efforts, we were thrilled to raise over £20,000. The perfect birthday gift from us to our charity partners.

### Community Champions

Every day our store colleagues meet customers making a difference in their communities; true Community Champions.

In November, each Scotmid Food and Lakes & Dales Co-operative store was asked to recognise and reward their own Community Champions with a specially-created card and gift; our way of saying thanks for playing a key role in the local area. From school crossing patrollers to volunteers, the selection was vast, but all make their own difference.



### World's Largest Burns Supper

Scotmid made history at the Edinburgh Corn Exchange on Friday 24 January 2020 by hosting the largest Burns Supper of all-time. 926 people tucked into haggis, neeps and tatties at the showpiece event, which set a new achievement with Guinness World Records for the largest Burns Supper ever held.

The record-breaking event was hosted by comedian and presenter, Fred McAulay. Hugh Farrell, Chairman of the famed Friends of Robert Burns Birthplace Museum addressed the haggis and delivered the Immortal Memory while the Toast to the Lassies was given by

TV's Mark Cox – Tam from Still Game – while the Response from the Lassies came from Jane McCarry, AKA Still Game's Isa. Tam O'Shanter was enthusiastically delivered by Fergus Muirhead.

Scotmid CEO John Brodie said: "It was absolutely fantastic that as part of our 160th anniversary celebrations we also managed to make history by breaking the Guinness World Records title for the largest ever Burns Supper. it was great to see so many friends and colleagues joining

together to be part of such a memorable achievement."

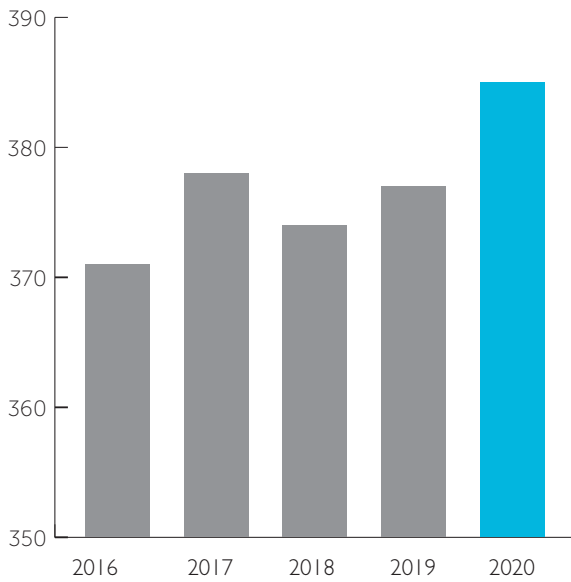
Scotmid President Harry Cairney said: "Thanks to everybody who contributed to this record-breaking feat – it was a real team effort and that has been a recurring theme throughout our 160 years serving Scottish communities and improving people's everyday lives."

The Preston Lodge High School Pipe Band piped in the record-breaking number of guests while the award-winning co-operation band entertained attendees during the event.

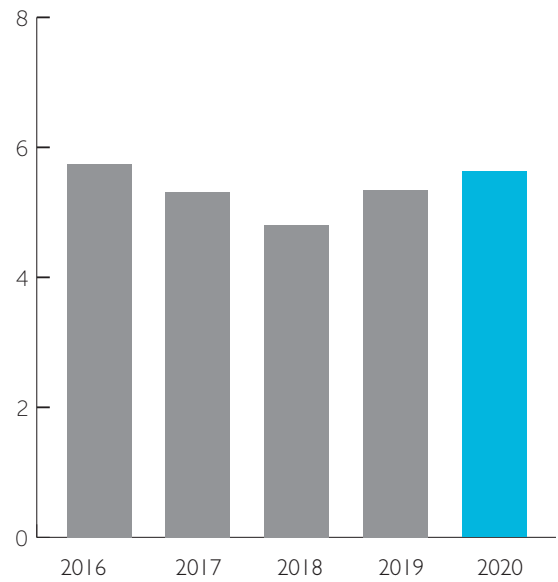
# Group Five Year Summary

	2019-20	2018-19	2017-18	2016-17	2015-16
	52 weeks	52 weeks	52 weeks	52 weeks	52 weeks
number of members	155,997	155,343	268,125	266,627	265,499
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
turnover	384,952	377,856	373,712	376,169	370,620
trading profit	5,632	5,339	4,814	5,309	5,740
operating profit	7,632	8,291	7,924	9,735	7,829
surplus before taxation	5,680	6,360	5,958	7,623	5,446
surplus for the financial year	4,485	4,485	5,547	6,252	4,301
depreciation and amortisation	9,992	9,815	10,145	10,424	10,615
net finance costs	1,280	1,324	1,363	1,476	1,709
purchase of fixed assets	11,548	11,834	19,173	10,156	7,837
fixed assets	174,209	170,369	165,781	159,771	154,811
net current assets/(liabilities)	5,608	(31,608)	3,715	4,556	3,937
total assets less current liabilities	179,817	138,761	169,496	164,327	158,748
less long term liabilities	(50,694)	(13,797)	(48,510)	(48,870)	(49,284)
less provision for liabilities and charges	(2,190)	(2,703)	(2,090)	(1,341)	(2,257)
less pension liability	(21,856)	(19,236)	(19,340)	(22,585)	(15,734)
net assets	105,077	103,025	99,556	91,531	91,473
share capital	6,120	6,059	6,050	6,039	5,988
revenue reserves	61,249	62,135	62,936	51,316	55,953
non-distributable reserve	37,708	34,831	30,570	34,176	29,532
shareholders funds	105,077	103,025	99,556	91,531	91,473

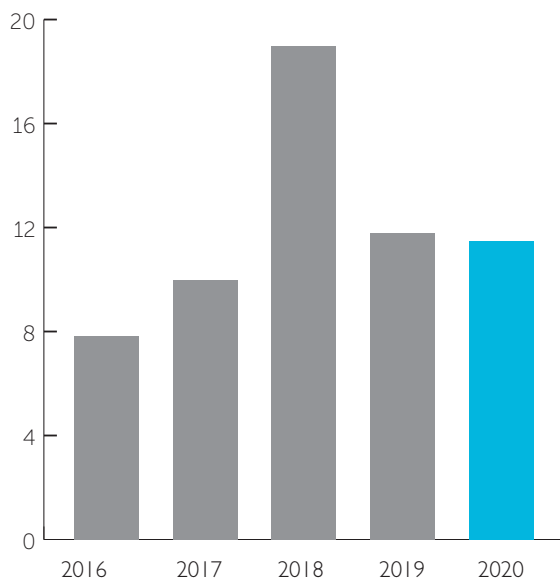
### Turnover (£ millions)



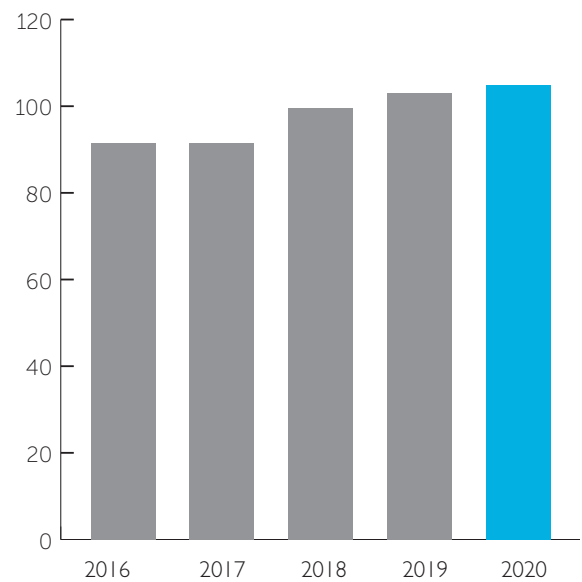
### Trading profit (£ millions)



### Purchase of fixed assets (£ millions)



### Net assets (£ millions)



# Statement of directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and Society financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit 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 UK Accounting Standards, including FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The financial statements are required by law to give a true and fair view of the state of affairs of the Society and of the income and expenditure of the Society for that period.

In preparing the Society 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Society's ability to continue as a going concern, disclosing as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## 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 a revolving credit facility and an overdraft facility. The overdraft facility is renewable annually in June and the Directors expect this renewal to take place in the normal course of business. The Board has undertaken a thorough review of the Society's financial forecasts and associated risks. These forecasts extend beyond

one year from the date of approval of these financial statements and show that the Society will continue to operate within the terms and financial covenants of its bank 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. With the significant impact of the COVID-19 pandemic in the UK in the months after our year-end, the forecasts have been updated based on the latest information available on COVID-19. The updated forecast has been prepared on a cautious basis assuming the UK is locked down for period of six months with our Semichem retail stores not able to trade and a reduction in property rental income. Scotmid's food stores and funeral offices continue to trade because they are providing essential services. The forecasts include the estimated additional costs of trading in the lockdown but also the benefit of the confirmed elements of Government support, including the 12 month rates holiday for our trading properties that qualify. The assumptions used in our forecast are also summarised in the Statement of Accounting Policies on going concern on page 31. 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

## Co-operative Governance Code

The Co-operatives UK Co-operative Governance Code ("The Code") is based on the principles contained in the UK Corporate Governance Code. The Code, which was updated in November 2019, sets out "a set of principles that all Co-ops can reflect on" and now applies to all co-operatives, not only consumer co-operatives. Although the Society substantially complies with the new Code, the format of the Code has changed with amendments introduced in November 2019 to both the Principles and their supporting Provisions. Accordingly, the Society is working through these amendments to consider their implications for the Society and to develop or amend current practices to bring the Society's governance into line with the new Code. In the limited number of cases where the Society adopts an alternative approach to the new code we explain the background to the Society's approach. Board Committee Terms of Reference are in-line with the previous code and will be reviewed in 2020 when the new guidance on terms of reference becomes available.

The new Code is organised into six sections. Set out below in section order are the significant policies, recommended disclosures or alternative Society practices that are relevant to each section of the Code that are not covered elsewhere in Annual Report:

### 1) Member Voice, Participation and Engagement:

The Board has considered various methods to encourage Member participation at meetings and biannual Member meetings are held in the Society's three regions to encourage

attendance and make meetings more accessible to Members. AGMs in the North Region are rotated annually to enable Members from across that region the opportunity to attend a meeting closer to their home location. The Board encourages Members to attend, participate and ask questions at meetings so that they can exercise their vote on a fully informed basis, rather than by voting electronically. In addition, there are direct electronic channels for Member communication and also through our food stores including Member voting for the Community Connect scheme.

### 2) Co-operative Leadership and Purpose:

#### a) Democratic Governance:

The democratically elected Board sets the Society's strategic objectives, taking into consideration ICA Values & Principles, and works closely with the Executive Management team to monitor progress against those objectives. It regularly considers proposals, reports and presentations from all business functions detailing investment opportunities and their associated risks, and considers recommendations from the management team. On an annual basis the Board considers the trading outlook for the following year and adjusts its strategic focus, if necessary, to ensure the long term sustainability of the Society.

#### b) Member Value Statement:

The Society operates businesses that provide Members/customers goods and services and then invests surplus funds back into the local community. Members derive value from their ownership of the Society

and through the democratic process, by making decisions on how the Society is run and how surplus funds are distributed. Local community groups are supported through the Community Grant and Community Connect schemes and Members, customers and colleagues actively support and fundraise for the Society's charity of the year. Members receive regular Society updates via the 'Jigsaw' magazine and are encouraged to attend biannual Members meetings and participate in the democratic organisation of the Society. Members are encouraged to trade with the Society and regularly receive rewards/incentives.

#### c) Long Term Sustainability:

The Board has agreed a clear and well communicated core purpose for the Society (to serve our communities and improve people's everyday lives). The Society operates using co-operative values and principles and through the support of our Members is able to take a longer-term view on the development of our businesses to ensure long-term sustainability. Our core businesses operate in very competitive markets but provide essential needs such as the provision of food. The Society adopts a continuous improvement approach and our forward strategies consider and take account of market developments underpinned by the core underlying Member/consumer need. In addition, the Society operates a diverse range of businesses to balance risk and through our complementary diversification strategy invest and explore other new opportunities for development.

# Governance Report continued

**d) Society Culture:** The Board considered and agreed its long-term strategy for the development of the Society's culture as part of Scotmid's implementation of Co-operatives UK Blueprint for a Co-operative decade. The general aim of the strategy was to build on our strengths with a friendly environment where colleagues can challenge, have self-responsibility and be proud to work for the Society. The four ethical co-operative values of honesty, openness, caring and social responsibility underpin this culture. Within the Society, culture development is facilitated and monitored by our People & Performance specialist team. The Board and Society managers use a Scotmid version of the "7 habits of highly effective people" template which is specifically linked to the co-operative principles, as a practical guide to leadership development consistent with our culture strategy. There are also four Board approved pillars that support the wider development of our culture that focus on team, innovation, can-do and co-operative spirit.

### 3) Roles and Responsibilities:

**a) Board Accountability:** As a result of the Society's two tier governance model, Members are elected onto Regional Committees and at the Society's AGMs they directly elect Regional Committee nominees to serve on the Board. All elected Members represent Members at their Regional and Board meetings. They regularly receive trading updates, presentations from various parts of the business, reports on membership matters and

from the wider co-operative movement. As such, the elected Regional Committee Members hold the Board to account.

**b) President Term of Office:** In 2014, Members approved transitional rules to enable the Board to progress onto a Balanced Board method of refreshment. The President serves a three-year term and the transitional rules enable the current President to serve a maximum of 9 years in his role, instead of the 6 years recommended by the Code. This was approved by Members enabling the Society to transition to a Balanced Board approach while maintaining our long-term succession planning process, this is considered beneficial to the Society.

**c) Timing of Board Paper Distribution:** The Board regularly reviews its working practices and is satisfied that the timing of Board paper distribution, which is undertaken electronically, is appropriate to the nature of documents to be considered.

### 4) Board Composition, Succession and Evaluation:

**a) Board Succession:** The Board are satisfied that the Balanced Board approach to succession planning adopted in 2014 best meets the needs of the Society and therefore has decided to retain this approach rather than adopting the 3 terms x 3 years model. It views the Balanced Board approach as one which enables the Society to retain the skills and knowledge by some longer serving Board Members, balanced with some newer Directors, which provides for a diverse Board.

**b) Member Training:** A comprehensive training programme is offered to all Board and Regional Committee Members each year covering a variety of topics which includes training specifically for elected Members preparing to join the Board. The training offered is based on the results of the annual evaluation process together with feedback from the Board/Regional Committee Members. Although the Society does not provide a programme of training sessions which all Directors must attend, each Regional Committee Member must undertake specific training should they wish to progress onto the Board. The Society also provides ad hoc training/information events to which Members are invited.

### 5) Risk, Financial Management and Internal Control:

**Audit Committee Financial Experience:** One member of the Audit Committee is a Fellow of the Chartered Institute of Bankers in Scotland which the Board considers to be appropriate financial experience. All Directors are elected by the Members and are drawn from the Society's trading areas. They are appointed to a Board Committee according to their skills and experience, and collectively have a range of knowledge and competence relevant to the Society's operations.

### 6) Remuneration of the Board and Executive Leadership:

**Remuneration Disclosure:** The total remuneration and the salary bandings of the Chair, Chief Executive Officer and members of the Executive team



are shown in the Notes to the Accounts which is considered to be appropriate disclosure.

## 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. Membership matters including Membership strategy and development are the responsibility of the Search Committee. The Membership team promote recruitment, organise Membership events and communicate with Members.

Details of the Membership activities undertaken during the year are contained within the Directors' Report on pages 3 to 13.

## Regional Democracy

Members are currently represented across three Society Regions (North, East & West). Regional Members' meetings are held and are advertised in our stores, on our website and by email. Each region is represented by a Regional Committee, and Members who meet the qualifying criteria are elected to the Committees by the Membership at the Members' Regional meetings. Regional Committee Members are elected to serve on the Committees for a period not exceeding three years after which they may stand for re-nomination with elections held at the Annual General Meeting in their region. Regional Committees are also responsible for the nomination of Directors, from within their Regional Committee, to represent the Members for that region. Contested elections were held in the North Region in

2019 with uncontested elections in the East and West Regions. On an annual basis each Regional Committee conducts an annual planning and evaluation review with recommendations discussed by the Search Committee.

The Board aims to develop the Society's democratic representation in the Lakes & Dales area. Until an alternative structure is in place, Members from the former Penrith Society are part of the West Region and former Seaton Valley Society Members, the East Region. Members from those areas are eligible for nomination and election to serve on those respective Regional Committees representing Members from the Lakes & Dales area. A trial Lakes & Dales Panel was established during the year to allocate Community Grants to groups in that area and to shortlist good cause groups eligible for Community Connect awards.

## Board's Role

The role of the Board and the details of the Directors' role and responsibilities are contained within the Society's Rules which are available to all Members on the Society's website or on request. The Board is responsible for determining the Society's strategy in consultation with the Management Executive. It is responsible for monitoring the delivery of that strategy by management and identifying and managing risk. Given the distinctive nature of co-operative societies, the Board has a duty to ensure that the Society acts as a bona fide co-operative and adheres to the co-operative values & principles set out by the International Co-operative Alliance.

All of the directors are collectively responsible for the success of the Society, are equally responsible in

law for the Board's decisions and are bound by an overriding duty to act in good faith in pursuit of the best interests of the Society as a whole. The Directors have a Code of Conduct which, together with Standing Orders, covers their duties and responsibilities.

The day-to-day management of the Society's activities is delegated to the Chief Executive Officer and the Management Executive who are responsible for execution of the Society's strategy within the framework laid down by the Board.

As part of transitional arrangements previously approved by Members, the Board increased its size to 13 Members by creating an additional seat for a North Regional Committee Member to represent Members from that Region. Directors are nominated by Regional Committee Members and elected by Members from the Regions they represent. One retired employee is a Board Member, there are no recently retired employee 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 Code requires Directors to maintain robust and defensible risk management and internal control systems and to regularly review their effectiveness. The review covers all material controls including financial, operational, compliance and risk management systems. The key elements in the

# Governance Report continued

Society's adopted internal control framework which are considered to be appropriate to the current size and complexity of the Society are as follows:

## 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 standing Board Committees, three of which have terms of reference as recommended in the previous Code: Audit, Remuneration and Search. There is also a General Purposes Committee which is responsible for addressing

general matters not specified in the terms of reference of the above committees.

## Audit

The Audit Committee is responsible for the oversight of internal and external audit and monitoring the integrity of financial reporting, internal controls and risk management. The Audit Committee consists of four Directors and it met four times in 2019/20. The President is not a member of the Audit Committee and there were no changes to the membership of the Committee during the year.

The Society has an Internal Audit Department reporting directly to the Chief Executive. An annual report for 2019/20 has been produced and audit plan for 2020/21 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, reviewed and agreed by the Board in 2017, include:

- Consideration of the appointment of the external auditor and the scope of the audit;
- Review and approval of the external auditor's annual plan;
- Review of the financial statements and auditor's management letter;
- Review of the internal audit programme and internal audit reports;
- Review of the effectiveness of the Society's internal controls and risk management systems; and

- Review of the arrangements and procedures for whistleblowing.

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. The risk registers are consolidated onto a risk assurance map. This process enables resource to be focused 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 Audit Committee is also responsible for reviewing the Society's tax policy and strategy on an annual basis.

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.

## Remuneration

The Remuneration Committee consists of five Directors, none of whom are employees or has a paid contract to deliver services to the Society, recently retired employees or the President of the Society. The committee is proportionate to the size, complexity and risk profile of the Society.

The Committee's role is to ensure that the levels of remuneration and contractual terms of Directors and the Executive Leadership team is

appropriate and takes into account the responsibilities held and the size, complexity and risk profile of the Society's trading Divisions.

The Committee makes recommendations annually to the Board on Executive remuneration. External advice is provided to the Remuneration Committee by an independent advisor 'Reward Matters Limited' to ensure that the remuneration is appropriate to the scale and scope of the business. Industry wide data is provided through the use of the Willis Towers Watson UK retail survey information.

The Remuneration Committee is also responsible for making recommendations to the Board for the level of Directors' and Regional Committee Members remuneration and expenses. These are agreed by Members at the General Meeting. Details of the remuneration of Directors and Management Executive can be found in Note 4 to the financial statements. The salary information in the bandings in Note 4 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.

## Search

Monitoring Board and Regional Committee effectiveness is the responsibility of the Search Committee together with, member training, succession planning (Board, CEO & Secretary) and oversight of the Society's membership development and community strategy. The Committee consists of four Directors and there have been no changes in Committee composition during the year.

The 2019/20 Board skills evaluation process was undertaken internally by Directors completing a self-assessment questionnaire to enable the evaluation of individual director skills. Directors were also asked to review the operational practices of the Search Committee and the Directors' individual and collective board skills. The Search Committee reviewed the outcome of the evaluation and concluded that Directors had met their responsibilities and agreed to progress a number of recommendations during 2020.

The results and recommendations arising from the evaluation of the Regional Committee were also reviewed by the Search Committee following its annual planning and evaluation process. Regional Committee Members completed a self-assessment questionnaire seeking opinions on a wide variety of topics in relation to their skills, knowledge and understanding together with the operational aspects of their respective Committees. A number of recommendations will be progressed in 2020.

Fewer training sessions were arranged for Board and Regional Committee Members during the year with training focused on finance training, cyber awareness, and Health Defence workshops arranged by Chest, Heart & Stroke, the charity of the year.

As part of the Search Committee's responsibility for succession planning, the Search Committee monitor the average length of service on the Board and the implications on future board membership of the transition arrangements from the age rule to a Balanced Board approach. The average length of service of the Board is currently nine years, however three long-serving Directors are due to retire in 2020.

For and on behalf of the Board

Harry Cairney  
**President**

John Brodie  
**Chief Executive Officer**

John Dalley  
**Secretary**

23 April 2020

# Corporate Social Responsibility

## Introduction

As a Co-operative Society we aim to operate our business in line with co-operative values and principles. For consistency Scotmid has continued to report against Co-operatives UK social responsibility indicators which provide a means for measuring this performance. As part of the implementation of Co-operatives UK new Governance we will review these indicators to determine if the basis of reporting should be amended or changed in the future. Scotmid has a diverse range of operations so the current 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.

## Member Economic Involvement

Society Members have a Membership card that is used to vote for local good causes as part of our Community Connect process and is linked to Member only offers. This provides us with a snapshot of our Member's economic involvement but it is not a complete picture. It is apparent from this data however that Members are spending more on visits than non-members by 23% on average.

## Member Democratic Participation

233 (2018/19 - 225) Members attended the Annual General Meetings on 29 and 30 April 2019 and 180 (2018/19 - 178) Members attended the Ordinary General Meetings on 30 September and 1 October 2019.

## Staff and Member Training

This year 30,077 hours of staff formal staff training have been provided (2018/19 - 34,275) which was an average 7.75 of hours per employee (2018/19 - 8.75). This training included 11,769 hours of e-learning compared to 15,441 hours last year. The total amount of training hours has reduced for two reasons. Firstly last year saw a peak in personal licence renewals and secondly system changes now enable us to provide more tailored training packages which reduce the overall time required.

A reduced number of training sessions were offered to Members during 2019/20 resulting in 260 hours of training being received compared with last year's total of 272. The number of training hours per "active" Member reduced to 1.1 hours from 1.2 in 2018/19 (where active Membership for training purposes has been defined as the number of Members attending the AGM). This reduction being due to a combination of a lower take up of training sessions provided and increased Member attendance at AGMs). Cyber awareness training together with 2 separate Finance sessions and health awareness training provided by Chest, Heart & Stoke Scotland (one of the Society's charity of the year partners), were offered during the year.

## Staff Injury and Absentee Rates

The reportable incidents involving staff amount to 8 incidents compared to 9 in the prior year. This equates to 0.2% of the average total workforce. We are continuing to emphasise the need to report all accidents with our colleagues which explains the modest increase to 299 compared to 281 last year. The non-reportable accidents

amount to 7.5% of the average total workforce and combined total of 7.7% (2018/19 - 7.4%). The improved reporting of all accidents helps us monitor trends and respond with more risk management activity which in turn, helps to reduce the risk of some serious accidents occurring.

This year 30,490 days were lost through absenteeism (2018/19 - 30,722), an average of 7.6 days per employee. This compares to a Society average of 7.8 days last year. The UK National average was 5.9 days but this is not industry specific. (Health & Well Being at Work Survey Report April 2019 - formally CIPD Absence Management Report).

## Staff Profile

The efficiency improvements and a few store closures have resulted in an average of 3,880 employees in 2019/20 compared to 3,919 in 2018/19.

The staff profile by gender at the year-end was 71% female and 29% male, compared to the profile in 2018/19 which was 70% female and 30% male. Our gender pay gap information is published and we are taking steps to address this.

Our staff profile by ethnicity is based on a sample of the workforce that responded to a 2015 survey. It has been adjusted for starters and leavers in subsequent years.

Ethnic Origin	% of workforce
Asian	2.00
Black	0.15
Other	0.55
White	97.30
Total	100.00

The ethnic mix of our staff is representative of the communities in which we operate, with the highest levels of ethnic minority colleagues reported in our urban locations in line with national demographics.

## Customer Satisfaction

The Society made the decision to refresh our previous method of monitoring customer satisfaction levels so at present we don't have data in a comparable format. We are reviewing options for an alternative method to monitor customer satisfaction levels and will keep this area under review.

## Ethical Procurement

The majority of the Society's purchases are through the Co-operative buying group known as the Federal Retail Trading Services (FRTS). The Group remain committed to the principles of sound sourcing, animal welfare, food integrity, health and ecological sustainability as set out in their Coop Way Report published in 2018. We have included our Modern Slavery Statement on page 28.

## Investment in Community and Co-operative Initiatives

Investment in community activities continued throughout the year, partly funded from income received through the sale of single use carrier bags with a total of £600,000 (2018/19 - £740,000) donated. Support was provided to Keep Scotland Beautiful to help fund their Spring Clean 2019 campaign and Upstream Battle project while charities helping the homeless across Scotland were supported for a second year with funding to enable over 3,000 meals and toiletry gifts to be given during the Christmas period to those in

need. The Society also continued to support the cooperation band, Scotland's most successful brass band who, in turn, were pleased to play at the Society's record breaking Burns Supper in January 2020.

As part of the Society's 160th anniversary celebrations, additional funding was provided for the Community Grant programme which supported 1,154 community groups. Members across Scotland voted in store and at Regional Member meetings to award 18 good cause groups £150,000 and preparations for the completion of the rollout of the Community Connect across the Lakes & Dales area were completed during the year. Donated amounts totalled 10.7% of our trading profit (2018/19 - 13.9%). More detail of the support given has been provided in the Directors' Report on pages 14 to 15. In 2019/20 £3,000 (2018/19 - £3,000) was invested in co-operative initiatives.

Chest Heart & Stroke Scotland, Northern Ireland and Different Strokes were chosen to partner with the Society during 2019/20 with the aim of raising £300,000 to provide rehabilitation services, purchase new equipment and help to increase awareness of the support available to others who are struggling with the effects of a stroke and raised £130,000 at the mid-way point. In August 2019 the charity partnership with SSPCA in conjunction with RSPCA and USPCA drew to a close having raised £325,000 to help create opportunities for children to learn about animal welfare. This resulted in the Society having raised over £2,000,000 for charity in the past 6 years.

## The Environment

Scotmid have achieved a 56% reduction in Gross Greenhouse Gas emissions which has beaten our target of 50% by 2020 (from a 2008 base). This has been achieved through various energy initiatives including investing in new refrigeration systems which use more environmentally friendly CO2 as a refrigerant and replacement of older heating systems. We continue to report on direct GHG emissions in two ways: net emissions (that treat electricity from renewables as zero carbon emissions) and gross emissions which include electricity regardless of source in addition to gas and other sources of energy. The gross emissions, which include all energy used, are 11,773 tonnes of GHG (2018/19 -13,754 tonnes). The Society produced an estimated 2,251 tonnes of GHG (net of renewable sources) from on-site operations compared to 2,595 last year. This equates to 0.6 tonnes of net GHG per employee (2018/19 - 0.7 tonnes of GHG).

## Proportion of Waste Recycled/Reused

Our waste continues to be backhauled from our stores and processed for enhanced recycling. Our Head Office and Funeral offices recycle cardboard, paper and plastic through our waste uplift providers. As a result we estimate that we have recycled 6,400 tonnes of waste (2018/19 - 5,000) with a residual 60 tonnes being passed to landfill. While the totals appear to have increased in the year, our proportion of waste recycled has remained at 99% which is very close to the zero waste target. We are continuing to look at ways of reducing food waste overall with a new product due to be introduced which will help stores

# Corporate Social Responsibility continued

with the reduction process and have a small trial commencing where we are selling packages of goods due to go out of date via the "Too Good To Go" app. We have also been awarded a gold award by Keep Scotland Beautiful for our environmental approach at our Head Office site which included our waste processes.

## Modern Slavery statement for financial year 2019/20

This statement is made pursuant to s.54 of the Modern Slavery Act 2015 and sets out the steps that Scotmid has taken and is continuing to take to ensure that modern slavery or human trafficking is not taking place within our business or supply chain.

Modern slavery encompasses slavery, servitude, human trafficking and forced labour. Scotmid has a zero tolerance approach to any form of modern slavery. We are committed to acting ethically and with integrity and transparency in all business dealings and to putting effective systems and controls in place to safeguard against any form of modern slavery taking place within the business or our supply chain.

## Our business

As a retail co-operative society, our business model has some complexities in that we operate in different sectors. We have multiple suppliers for goods for resale and services. The most significant sector we operate in is food convenience retailing and over 90% of our stock is purchased from the Co-operative Group via our membership of the Federal Retail Trading Services (FRTS) who have ethical buying policies and are leaders in this field. We support Fair Trade directly through local

initiatives but also as part of our membership of FRTS. The majority of Semichem's suppliers are high profile manufacturers of brand leading consumer goods who publish extensively on their ethical position.

## Our higher risk areas

We have undertaken an extensive review of our supply chain to identify areas where there may be more exposure to risk across all areas of the business. We have considered geography, product sector and labour models when classifying. We have obtained assurance from our highest risk suppliers that they have addressed their modern slavery risk. We are continuing to review our processes and procedures to ensure that we minimise the risk of modern slavery in our supply chain.

## Our policies

We operate a number of internal policies to ensure that we are conducting business in an ethical and transparent manner. These include:

1. Recruitment policy. We operate a robust recruitment policy, including conducting eligibility to work in the UK checks for all employees to safeguard against human trafficking or individuals being forced to work against their will.
2. Whistleblowing policy. We operate a whistleblowing policy so that all employees know that they can raise concerns about how colleagues are being treated, or practices within our business or supply chain, without fear of reprisals.
3. We have a Modern Slavery Policy which sets out our zero tolerance approach.

## Our suppliers

We conduct due diligence on all new suppliers as part of the approval process. Our due diligence process will continue to evolve as we seek to ensure we minimise our exposure to modern slavery. Our standard terms and conditions include a modern slavery clause. This will be shared with new suppliers and priority suppliers.

## Training

We will continue to educate our procurement/buying teams so that they understand the signs of modern slavery and what to do if they suspect that it is taking place within our supply chain.

For and on behalf of the Board

Harry Cairney  
President

John Brodie  
Chief Executive Officer

John Dalley  
Secretary

23 April 2020

# Independent auditor's report to Scottish Midland Co-operative Society Limited

## Opinion

We have audited the financial statements of Scottish Midland Co-operative Society Limited for the year ended 25 January 2020 which comprise the Group profit and loss account, Group statement of comprehensive income, Group balance sheet, Group statement of changes in shareholders funds and Group cashflow and related notes, including the accounting policies on pages 31 to 33.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, of the state of the Group's affairs as at 25 January 2020 and of the income and expenditure of the Group for the year then ended; and
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or to cease their operations, and as they have concluded that the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group will continue in operation.

## Other information

The Directors are responsible for the other information, which comprises the Directors report, Group five year summary and Corporate Social Responsibility Report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

In addition to our audit of the financial statements, the directors have engaged us to review whether their Corporate Governance Statement on pages 21 to 25 reflects the Society's compliance with provisions 43 and 123 to 152 of Co-operatives UK Limited's Corporate Governance Code for Consumer Co-operative Societies issued in November 2013 ('the Code'). We have nothing to report in this respect.

## Matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- the Society has not kept proper books of account; or
- the Society has not maintained a satisfactory system of control over its transactions; or
- the financial statements are not

# Independent auditor's report to Scottish Midland Co-operative Society Limited continued

in agreement with the Society's books of account; or

- we have not received all the information and explanations we need for our audit.

We have nothing to report in these respects.

## Directors' responsibilities

As more fully explained in their statement set out on page 20 the Society's Directors are responsible for the preparation of financial statements which give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Society in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and, in respect of the reporting on corporate governance, on terms that have been agreed. Our audit work has been undertaken so that we might state to the Society those matters we are required to state to it in an auditor's report and, in respect of the reporting on corporate governance, those matters we have agreed to state to it in our 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 for our audit work, for this report, or for the opinions we have formed.

Hugh Harvie  
Senior Statutory Auditor  
for and on behalf of KPMG LLP,  
Statutory Auditor  
Chartered Accountants  
Saltire Court, 20 Castle Terrace  
Edinburgh, EH1 2EG  
29 April 2020



# Statement of Accounting Policies

## General Information

Scottish Midland Co-operative Society Limited is a registered co-operative society domiciled in Scotland. The address of the Society's registered office and main trading address is Hillwood House, 2 Harvest Drive, Newbridge, Edinburgh EH28 8QJ.

The Group's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Group for the year ended 25 January 2020.

## Going Concern

The Group's business activities, together with the factors likely to affect its future development are set out in the Directors Report on pages 3 to 13. The Group continued to be profitable in the year to 25 January 2020 and continues to have a strategy of growth. The financial statements have been prepared on a going concern basis which the directors believe to be appropriate for the following reasons.

At the year end, the Group had net assets of £105.1 million and net current assets of £5.6 million. It manages its day to day and medium term funding requirements with a combination of cash balances, an overdraft facility of £4m and a revolving credit facility of up to £40m which is available until 2025, and of which £37m is utilised at the date of signing.

The global COVID-19 coronavirus pandemic has been declared at the time of approval of these financial statements and is impacting all businesses. Solely as a result of the pandemic, the nature of the Group's business is such that in the next twelve months, there is expected to be an unpredictable variation in the value and timing of cash inflows. The directors have prepared projected cash flow information for the twelve months from the date of approval of these financial statements. These forecasts have been modelled on a severe but plausible downside scenario which they believe follow trading patterns experienced in countries which are ahead of the UK in terms of the spread of COVID-19.

This scenario includes an increase in food retail sales, the largest division within a first-priority industry, which since the lockdown was introduced through March and into April, has since been realised. This is followed by a slow-down in the strong performance of food retail sales taking account of supply chain and staff absence contingency measures. The impact of a 6-month closure of all Semichem

stores, and a reduction in rental income from the property portfolio is included in this scenario. The impact of business rates relief and the VAT payment deferral have been built into the forecasts, although the directors have not taken further government support such as the job retention scheme into account on the grounds that key features of these schemes remain to be confirmed. On the basis of this cash flow information the directors consider that, although this forecast could be subject to significant variability in the uncertain months that will follow, the Group will be able to trade within its existing facilities and meet its banking covenants over the going concern assessment period.

Based on the above indications, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

## Basis of Accounting

The Group financial statements were authorised for issue by the Board of Directors on 23 April 2020. The Group financial statements are prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, applicable accounting standards and under the historical cost convention modified to include the revaluation of certain land and buildings, equity investments and financial instruments at fair value. The financial statements are prepared in sterling which is the functional currency of the group and rounded to the nearest £'000.

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, see page 20.

## Consolidated Financial Statements

The Group financial statements consolidate the financial statements of Scottish Midland Co-operative Society Limited and all its subsidiaries. Subsidiaries are those entities controlled by the Group. Control exists when the Society has the power, directly or indirectly, to govern the financial and

operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

## Accounting Date

The accounts are prepared for the 52 weeks to 25 January 2020 (2018 - 52 weeks to 26 January 2019).

## Turnover

Turnover includes cash sales, goods sold on credit and property rental income exclusive of value added tax, funeral disbursements and discounts. Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Group and the turnover can be reliably measured.

## Trading Profit

The Society uses the Trading Profit measure to provide additional useful information for members on underlying trends and performance. This measure is used for internal performance analysis. Trading profit is not defined in FRS102 and therefore may not be directly comparable with other societies' or companies' adjusted profit measures. Trading Profit is calculated by reference to Operating Profit but excluding exceptional items, profit/loss on disposal of fixed assets and investment property revaluation.

## Exceptional Items

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

## Investment Income

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

## Taxation

The tax charge for the period comprises both current and deferred tax.

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

## Statement of Accounting Policies continued

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 also provided on timing differences arising from the revaluation of fixed assets. Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities are offset only if: a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

### Tangible Fixed Assets and Depreciation

Tangible fixed assets (excluding investment properties) are held at cost less depreciation and any provision for impairment. 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 recognised in the profit and loss account. On disposal of investment properties, any related balance remaining in the non-distributable reserve is transferred to

the revenue reserve. Depreciation is not provided in respect of investment properties.

### 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 profit and loss account as they accrue. Lease incentives are recognised over the shorter of the lease term or the period up to the first negotiation period within the lease.

### Goodwill

Purchased goodwill is capitalised in the year in which it arises at cost and amortised over its estimated useful life up to a maximum of 20 years with no charge for amortisation in the year of acquisition. Goodwill has been assessed through the analysis of the cash generating unit to provide a positive return over the recommended FRS102 amortisation period. Provision is made for any impairment.

### Impairment

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount (higher of value in use or fair value less costs to sell). Impairment losses are recognised in the profit and loss statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units, and then to reduce the carrying value of other fixed assets.

### 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.

### Investments

Equity investments are recognised initially at fair value which is normally the transaction price (but excludes any transaction costs, where the investment is subsequently measured at fair value through the profit and loss account).

Subsequently, they are measured at fair value through profit or loss except for those equity investments that are of minimal value and are not publicly traded and whose fair value cannot otherwise be measured reliably which are recognised at cost less impairment until a reliable measure of fair value becomes available.

### Funeral Plans and Bonds

Amounts received in advance for funeral plans are recorded at fair value within assets and liabilities. Monies are paid into a contract for whole life insurance on the life of the customer for the purpose of providing the funeral, and the current value of these plans at the year-end are disclosed within investments. Changes in fair value are included in the Group Profit and Loss Account. The asset and deferred income liability has been apportioned between current and long-term based upon the Group's experience of funerals carried out under its pre-payment plans. Third party funeral bonds are held at fair value with market valuation being provided by Insurer.

Scotmid funeral bonds are assessed to provide an expected return of the average cost of a funeral with interest applied and recognised through the profit and loss account.

### Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash that are subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Bank overdrafts are repayable on demand and form an integral part of an entity's cash management. Bank overdrafts are a component of cash and cash equivalents.

### Stocks

Stocks are valued in line with 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, less any provision made for bad and doubtful debts.

## Financial Instruments

The Society holds derivative financial instruments to reduce exposure to interest rate movements as an overall rate risk management strategy. The Society does not hold or issue derivative financial instruments for speculative purposes.

Derivatives entered into include interest rate swaps, caps and floors. Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value through the profit and loss account. The fair value of interest rate swap contracts are determined by calculating the present value of the estimated future cash flows based on observable yield curves. The Society does not undertake any hedge accounting transactions.

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

## Pension Costs

The Society operates a defined benefit funded pension scheme, a joint pension defined benefit pension scheme (with Allendale Co-operative Society Ltd) 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 profit and loss 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 comprehensive income.

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 is presented separately after other net assets on the face of the balance sheet.

For the joint funded defined benefit pension scheme recognition of the share of the deficit is based on the present value of the agreed additional payments made by the Society.

For defined contribution schemes the amount charged to the profit and loss 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 102 relating to share based payments. 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 profit and loss account.

## Provisions

A provision is recognised when the group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

## Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Society's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experiences and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis.

Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## Critical Judgements in Applying the Society's Accounting Policies

The following are the critical judgements, apart from those involving estimates (which are dealt with separately below), that the directors have made in the process of applying the Society's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

## Cost of Sales

Cost of sales includes recognition of rebates and overrides relating to activities conducted during the financial period and settled at a future date.

## Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

## Impairment of Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating entity to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating entity and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £17,193,000.

## Investment Property Valuation

At each year-end investment properties are revalued by a third party surveyor based on recent market value conditions. Movements in the valuations are recognised through the profit and loss and risk exists on this assumption with the value only being confirmed if the property was to be sold.

## Pension Assumptions

The defined benefit pension scheme assets are measured at current market value while the liabilities are estimated on assumptions as detailed in note 18.

## Group Profit and Loss Account for the year ended 25 January 2020

		2019-20 (52 weeks)	2018-19 (52 weeks)
		total	total
	notes	£000	£000
<b>turnover</b>	1	384,952	377,856
cost of sales		<u>(283,004)</u>	<u>(277,594)</u>
<b>gross profit</b>		101,948	100,262
other income	2	4,889	4,930
net expenses	3	<u>(101,205)</u>	<u>(99,853)</u>
<b>trading profit</b>		5,632	5,339
exceptional items	5	(1,679)	(2,297)
investment property revaluation	10	3,022	3,754
profit on disposal of fixed assets		<u>657</u>	<u>1,495</u>
<b>operating profit</b>		7,632	8,291
net finance charges	6	<u>(1,280)</u>	<u>(1,324)</u>
<b>surplus before distributions</b>		6,352	6,967
distributions			
share interest		(65)	(67)
grants and donations	7	<u>(607)</u>	<u>(540)</u>
<b>surplus before taxation</b>		5,680	6,360
taxation	8	<u>(1,195)</u>	<u>(1,875)</u>
<b>surplus for the financial year</b>		<u>4,485</u>	<u>4,485</u>

The results recognised during the current and prior year were from continuing operations.

The notes on pages 39 to 53 form an integral part of these financial statements.

## Group Statement of Comprehensive Income for the year ended 25 January 2020

		2019-20 (52 weeks)	2018-19 (52 weeks)
		total	total
	notes	£000	£000
<b>surplus for the financial year</b>		<u>4,485</u>	<u>4,485</u>
actuarial losses on defined benefit pension scheme	18	<u>(2,944)</u>	<u>(1,171)</u>
tax relating to components of other comprehensive income	8	<u>450</u>	<u>146</u>
<b>other comprehensive loss for the period</b>		<u>(2,494)</u>	<u>(1,025)</u>
<b>total comprehensive income for the period</b>		<u>1,991</u>	<u>3,460</u>

The notes on pages 39 to 53 form an integral part of these financial statements.

## Group Balance Sheet as at 25 January 2020

	notes	2019-20 £000	2018-19 £000
<b>fixed assets</b>			
intangible assets	9	17,193	18,620
tangible assets	10	47,608	46,396
investment properties	10	94,323	90,810
investments	11	<u>15,085</u>	<u>14,543</u>
		174,209	170,369
<b>current assets</b>			
stocks - goods for resale		25,268	24,780
debtors and prepayments	12	11,542	12,525
cash at bank and in hand		<u>12,722</u>	<u>9,170</u>
		<u>49,532</u>	<u>46,475</u>
<b>current liabilities</b>			
<b>amounts falling due within one year</b>			
creditors	13	<u>(43,924)</u>	<u>(78,083)</u>
<b>net current assets/(liabilities)</b>		<u>5,608</u>	<u>(31,608)</u>
<b>total assets less current liabilities</b>		179,817	138,761
<b>long term liabilities</b>			
<b>amounts falling due after more than one year</b>			
creditors	14	(50,694)	(13,797)
<b>provisions for liabilities</b>			
deferred taxation	8	(306)	(559)
other provisions	15	<u>(1,884)</u>	<u>(2,144)</u>
<b>net assets excluding pension liability</b>		126,933	122,261
<b>pension liability</b>	18	(21,856)	(19,236)
<b>net assets</b>		<u>105,077</u>	<u>103,025</u>
<b>financed by</b>			
share capital	17	6,120	6,059
non-distributable reserve		37,708	34,831
revenue reserve		61,249	62,135
<b>shareholders' funds</b>		<u>105,077</u>	<u>103,025</u>

The notes on pages 39 to 53 form an integral part of these financial statements.

The financial statements of Scottish Midland Co-operative Society Limited were approved by the Board of Directors and authorised for issue on 23 April 2020. They were signed on its behalf by:

Harry Cairney **President**

Jim Watson **Vice President**

John Dalley **Secretary**

## Group Statement of Changes In Shareholders Funds for the year ended 25 January 2020

	notes	share capital £000	non- distributable reserve £000	revenue reserve £000	total £000
<b>at 26 January 2019</b>		6,059	34,831	62,135	103,025
surplus for the financial year		-	-	4,485	4,485
transfer of realised revaluation on disposal of properties		-	(145)	145	-
actuarial losses on defined benefit pension scheme	18	-	-	(2,944)	(2,944)
tax relating to items of other comprehensive income		-	-	450	450
total comprehensive income		-	(145)	2,136	1,991
withdrawal of share capital	17	(4)	-	-	(4)
expenses of members capital	17	65	-	-	65
reclassification of revaluation of investment properties		-	3,022	(3,022)	-
<b>at 25 January 2020</b>		<u>6,120</u>	<u>37,708</u>	<u>61,249</u>	<u>105,077</u>

The notes on pages 39 to 53 form an integral part of these financial statements.

## Group Cash Flow Statement for the year ended 25 January 2020

		2019-20 (52 weeks)	2018-19 (52 weeks)
	notes	£000	£000
<b>net cash flows from operating activities</b>	19	16,028	12,041
<b>cash flows from investing activities</b>			
net proceeds from sale of equipment		68	9
net proceeds from sale of investment properties		1,483	4,514
net proceeds from sale of investments		-	5
purchase of investment		(80)	-
purchase of investment properties	10	(911)	(3,300)
purchase of equipment	10	(10,531)	(8,534)
interest received	6	67	105
interest paid	6	(38)	(63)
purchase of trading investments		(610)	-
<b>net cash flows from investing activities</b>		<u>(10,552)</u>	<u>(7,264)</u>
<b>cash flows from financing activities</b>			
share interest, grants and donations		(672)	(607)
repayments of borrowings	21	(37,500)	(2,000)
new finance leases	21	-	1,255
repayments of obligation under finance lease	21	(512)	(598)
proceeds on issue of shares		61	9
new bank loans raised		37,500	-
interest paid		(801)	(871)
<b>net cash flows from financing activities</b>		<u>(1,924)</u>	<u>(2,812)</u>
<b>net increase in cash and cash equivalents</b>		<u>3,552</u>	<u>1,965</u>
<b>cash and cash equivalents at beginning of year</b>		9,170	7,205
<b>cash and cash equivalents at end of year</b>	21	<u>12,722</u>	<u>9,170</u>
<b>reconciliation to cash at bank and in hand</b>			
cash at bank and in hand at end of year		<u>12,722</u>	<u>9,170</u>

The notes on pages 39 to 53 form an integral part of these financial statements.



<b>1. turnover</b>	<b>2019-20</b>	<b>2018-19</b>
<b>class of business</b>	<b>(52 weeks)</b>	<b>(52 weeks)</b>
	<b>£000</b>	<b>£000</b>
retail / wholesale	378,560	371,762
property	6,392	6,094
turnover	<u>384,952</u>	<u>377,856</u>

For the purposes of presentation turnover is stated net of VAT, disbursements and discounts. All turnover was generated within the United Kingdom.

## 2. other income

Other income comprises of commissions on services offered including but not limited to Post Office, Lottery, vending machines and ATM's.

<b>3. net expenses</b>	<b>2019-20</b>	<b>2018-19</b>
	<b>(52 weeks)</b>	<b>(52 weeks)</b>
	<b>£000</b>	<b>£000</b>
personnel costs	55,753	54,380
occupancy costs (excluding depreciation)	17,624	18,050
depreciation of owned assets	7,528	7,343
depreciation of assets held under finance leases	587	595
amortisation of goodwill	1,877	1,877
operating lease rentals - equipment and vehicles	577	585
fees - directors and committee members	306	242
expenses and delegations - directors and committee members	22	23
auditors' remuneration for group accounts	78	90
auditors' remuneration for subsidiary accounts	23	10
auditors' remuneration non-audit	1	1
other expenses	16,829	16,657
	<u>101,205</u>	<u>99,853</u>

Included within occupancy costs and other expenses is £4,983,000 relating to operating lease rentals for land and buildings (2018-19 - £4,977,000).

<b>4. employees</b>	<b>2019-20</b>	<b>2018-19</b>
	<b>total</b>	<b>total</b>
	<b>number</b>	<b>number</b>
the average number employed was:		
full time	1,221	1,235
part time	2,659	2,684
	<u>3,880</u>	<u>3,919</u>

	<b>£000</b>	<b>£000</b>
the costs incurred in respect of these employees were		
wages and salaries	50,835	49,812
social security costs	3,004	2,932
other pension costs	1,914	1,636
	<u>55,753</u>	<u>54,380</u>

## Notes to the Group Accounts

<b>4. employees - continued</b>	<b>2019-20</b> <b>(52 weeks)</b>	<b>2018-19</b> <b>(52 weeks)</b>
<b>directors' emoluments</b>	<b>£000</b>	<b>£000</b>

the total remuneration of the directors for their board and committee duties was

fees, bonuses and delegations	<u>139</u>	<u>142</u>
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In the prior year two directors received loyalty bonuses totalling £43,000 on leaving the Society's service.

the number of directors whose emoluments fell into each £2,500 bracket was

	number	number
£2,501 - £5,000	-	1
£7,501 - £10,000	9	9
£10,001 - £12,500	2	1
£12,501 - £15,000	-	1
£15,001 - £17,500	1	-
£20,001 - £22,500	1	1
£22,501 - £25,000	-	1
£25,501 - £27,500	-	1
	<u>13</u>	<u>15</u>

<b>management executive emoluments</b>	<b>£000</b>	<b>£000</b>
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the total remuneration of the management executive was

wages & salaries	1,222	1,091
taxable benefits	54	43
pension and pension allowance costs	176	164
	<u>1,452</u>	<u>1,298</u>

the number of management executives, whose emoluments, excluding pension, settlement and benefits fell into each £10,000 bracket was as follows

	number	number
£110,001 - £120,000	-	1
£120,001 - £130,000	-	1
£130,001 - £140,000	1	1
£140,001 - £150,000	2	-
£220,001 - £230,000	-	1
£250,001 - £260,000	1	-
£480,001 - £490,000	-	1
£540,001 - £550,000	1	-
	<u>5</u>	<u>5</u>

5. exceptional items	2019-20 (52 weeks) £000	2018-19 (52 weeks) £000
business integration, disruption and rationalisation costs	1,679	2,297
	<u>1,679</u>	<u>2,297</u>

Business integration, disruption and rationalisation costs include the impact of the closure of stores, onerous leases, distribution reorganisation, dilapidation, asset impairment and legacy costs and income.

6. net finance charges	2019-20 (52 weeks) £000	2018-19 (52 weeks) £000
<b>interest payable</b>		
funeral bond interest	204	1,057
bank overdraft and loan interest	764	841
finance leases	37	30
other interest	38	63
interest cost on pension scheme liabilities	<u>2,306</u>	<u>2,256</u>
total interest payable	<u>3,349</u>	<u>4,247</u>
<b>less - interest receivable and investment income</b>		
expected return on pension scheme assets	1,798	1,761
unlisted investments	53	53
other interest	14	5
funeral bond interest	204	1,057
movement in fair value of derivatives	<u>-</u>	<u>47</u>
total interest receivable	<u>2,069</u>	<u>2,923</u>
<b>total</b>	<u>1,280</u>	<u>1,324</u>

7. grants and donations	2019-20 (52 weeks) £000	2018-19 (52 weeks) £000
member relation activities & grants	579	510
donations	28	30
	<u>607</u>	<u>540</u>

## Notes to the Group Accounts

8. taxation	2019-20 (52 weeks) £000	2018-19 (52 weeks) £000
<b>8a. profit and loss account and other comprehensive income</b>		
<b>current taxation</b>		
UK corporation tax charge for the year	1,169	715
adjustment in respect of prior years	<u>(170)</u>	<u>221</u>
<b>total current taxation</b>	999	936
<b>deferred taxation</b>		
origination and reversal of timing differences	302	1,186
adjustment in respect of prior years	(74)	(117)
adjustment due to change of tax rate	<u>(32)</u>	<u>(130)</u>
<b>total deferred taxation</b>	196	939
<b>total profit and loss account taxation charge</b>	<u>1,195</u>	<u>1,875</u>
<b>other comprehensive income items</b>		
deferred tax in current year credit	<u>(450)</u>	<u>(146)</u>

### 8b. taxation reconciliation

The tax in the profit and loss account for the year is lower (2018-19 higher) from the standard rate of corporation tax in the UK. The difference is explained below.

<b>surplus before tax</b>	<u>5,680</u>	<u>6,360</u>
<b>tax on surplus at standard rate of corporation tax in the UK of 19% (2018-19: 19%)</b>	1,079	1,208
<b>factors affecting tax charge for the year</b>		
expenses not deductible for tax	79	52
sale of property	126	60
unrealised gains on investment properties	594	1,067
income not taxable	(408)	(486)
effect of tax rate changes	(31)	(130)
adjustment to tax in respect of prior years	(244)	104
<b>tax charge for the year</b>	<u>1,195</u>	<u>1,875</u>

## **8b. taxation reconciliation - continued**

### **expenses not deductible for tax**

The adjustments for expenses not deductible are permanent differences between the amounts included in the Society's financial results and the amounts that are included in the calculation of the taxable profit during a current or later period. The most significant adjustments in the current period relate to depreciation on fixed assets that do not qualify for capital allowances and consolidation adjustments for the defined benefit pension scheme.

### **sale of property**

Substantial capital gains can be realised through the sale of properties that the Society has owned for many years.

### **indexation allowance**

Indexation allowance is an allowance for inflation. In calculating any corporation tax due on properties and other fixed assets, the Society is able to increase its cost for tax purposes for inflation from the date of acquisition. The indexation allowance in the year relates to estimated indexation on investment properties not yet sold and indexation on properties sold in the year.

### **change in tax rates**

The UK corporation tax rate for the year was 19%.

The UK corporation tax rate will reduce from 19% to 17% from 1 April 2020. This change has been substantively enacted at the balance sheet date and, therefore the deferred tax assets and liabilities at 31 January 2020 have been measured using the rates that apply in the periods when the underlying timing differences, on which deferred tax is recognised, are expected to unwind.

A reduction in the UK corporation tax rate to 17% from 1 April 2020 was substantively enacted in the UK Finance Act 2016. The budget on 11 March 2020 confirmed the Government's intention that the corporation tax rate will remain at 19%. On this basis we would expect the overall deferred tax liability to increase by £58k.

### **adjustments to tax in respect of prior years**

Adjustments to tax charges in earlier years arise because the tax charge in the financial statements is estimated before the detailed corporation tax calculations are prepared. Additionally, HM Revenue & Customs (HMRC) may not agree with the tax return that was submitted for a year and the tax liability for a previous year may be adjusted as a result. Where the final tax charge differs from the estimate an adjustment is included in the following period's financial statements.

### **other**

The deferred tax provision is calculated on the deficit in the scheme recognised in the Society accounts and the element of asset backed funding contribution not yet tax deductible. The deficit recognised by the Society of £13,712,000 (2018-19 - £10,575,000) is lower due to the different accounting treatment of the Asset Backed Funding arrangement in the Society and these group accounts.

The taxation charge in the other comprehensive income is the deferred taxation (at a rate of 19%) on the actuarial gain on the Society's defined benefit pension scheme.

### **tax policy and strategy**

The Society approved an updated tax policy on 6 April 2016, to pay the appropriate taxes we owe by seeking to pay the right amount of tax (but no more) at the right rate, in the right place and at the right time. A full copy of the tax policy and strategy is published on our website.

## Notes to the Group Accounts

8c. deferred taxation	2019-20 £000	2018-19 £000
<b>deferred tax</b>		
provision at beginning of year	(559)	234
adjustment in respect of prior years	74	117
deferred tax charge to income statement in the period	(271)	(1,055)
deferred tax charge to other comprehensive income statement in the period	450	145
<b>deferred tax provision at the end of the year</b>	<u>(306)</u>	<u>(559)</u>
<b>deferred tax assets/(liabilities)</b>		
fixed asset timing differences	(3,578)	(3,199)
short term timing differences	2,743	2,111
losses	529	529
<b>deferred tax provision at the end of the year</b>	<u>(306)</u>	<u>(559)</u>

The fixed asset timing difference liability mainly relates to investment property revaluation. The short term timing differences asset mainly relates to the defined benefit pension scheme.

Tax losses are from the transfer engagements of Penrith and Seaton Valley Societies and are expected to be utilised against the future profits within these parts of the Society's business.

<b>deferred tax assets</b>		
recoverable within 12 months	326	421
recoverable after 12 months	3,095	2,343
<b>deferred tax assets</b>	<u>3,421</u>	<u>2,764</u>
<b>deferred tax liabilities</b>		
payable after 12 months	(3,727)	(3,323)
<b>deferred tax liabilities</b>	<u>(3,727)</u>	<u>(3,323)</u>

## 9. intangible assets

goodwill	cost	amortisation	balance sheet value
	£000	£000	£000
at the beginning of the year	52,363	(33,743)	18,620
additions	450	-	450
amortisation provided for the year	-	(1,877)	(1,877)
at the end of the year	<u>52,813</u>	<u>(35,620)</u>	<u>17,193</u>

## 10. tangible fixed assets

	land & buildings £000	investment properties £000	plant vehicles & fixtures £000	total £000
<b>cost or valuation</b>				
26 January 2019	30,962	90,810	117,828	239,600
additions	-	911	10,637	11,548
disposals	(401)	(420)	(2,026)	(2,847)
reclassification	(48)	-	48	-
revaluation	-	3,022	-	3,022
25 January 2020	<u>30,513</u>	<u>94,323</u>	<u>126,487</u>	<u>251,323</u>
<b>depreciation</b>				
26 January 2019	14,115	-	88,279	102,394
provided for the year	742	-	7,373	8,115
disposals	(90)	-	(1,863)	(1,953)
impairment	-	-	836	836
reclassification	(24)	-	24	-
25 January 2020	<u>14,743</u>	<u>-</u>	<u>94,649</u>	<u>109,392</u>
balance sheet value at 26 January 2019	<u>16,847</u>	<u>90,810</u>	<u>29,549</u>	<u>137,206</u>
balance sheet value at 25 January 2020	<u>15,770</u>	<u>94,323</u>	<u>31,838</u>	<u>141,931</u>

The net book value of the group's fixed assets includes £1,858,000 (2018-19 - £2,453,000) in respect of assets held under finance leases. All assets classified as Land & Buildings are freehold properties. All assets under finance leases are held within plant, vehicles & fixtures.

Investment properties were independently valued by Chartered Surveyors D M Hall LLP and Sanderson Weatherall LLP as at 25 January 2020 at open market value on the basis of existing use, in accordance with the appraisal and valuation manual of The Royal Institution of Chartered Surveyors. The valuation was arrived at on the basis of an inspection and survey of a sample of the Society's investment properties.

The net book value of the group's fixed assets includes £17,079,000 (2018-19 - £16,382,000) of investment properties held by Scotmid Pension Limited Partnership. These properties provide security for the Asset Backed Funding Arrangement put in place during 2012-13.

## Notes to the Group Accounts

	long term	current	total	long term	current	total
11. investments	2019-20 £000	2019-20 £000	2019-20 £000	2018-19 £000	2018-19 £000	2018-19 £000
funeral bond investment	12,500	994	13,494	11,936	1,096	13,032
<b>unlisted investments</b>						
Co-operative Group shares	1,341	-	1,341	1,341	-	1,341
other C & CB Societies	2	-	2	2	-	2
others	258	-	258	178	-	178
joint ventures	(16)	-	(16)	(16)	-	(16)
	1,585	-	1,585	1,505	-	1,505
<b>listed investments</b>						
others	6	-	6	6	-	6
	14,091	994	15,085	13,447	1,096	14,543

	funeral bond investments £000	unlisted investments £000	listed investments £000	total £000
cost or valuation				
balance sheet value at 26 January 2019	13,032	1,505	6	14,543
additions	1,218	80	-	1,298
disposals	(960)	-	-	(960)
interest gain	204	-	-	204
balance sheet value at 25 January 2020	13,494	1,585	6	15,085

The listed investments are considered minimal and therefore, in line with our policy have been stated at cost. The market value of the listed investments at 25 January 2020 was £31,000 (2018-19 - £23,000) and therefore the fair value would add £26,000 (2018-19 - £18,000) if restated.

The group's significant subsidiary undertakings include the retail activities of Botterills Convenience Stores Limited, Trade Smart Marketing Limited, the pension activities of Scotmid Pension (GP) Limited, Scotmid Pension (IP) Limited, Scotmid Pension Limited Partnership and Scotmid Property & Services Limited which holds the employee share ownership plan. The net assets and activities of the subsidiary undertakings are included in these group accounts. The group has a shareholding in The Start-Up Drinks Lab Limited a drink manufacturer, and in Product Guru an online supplier/customer interface.

FRS102 requires financial investments to be recognised and funeral bonds with third parties are included above. The funeral bonds are held at fair value with market valuation being provided by the insurer.

The group has an interest in a joint venture. The principal activity of this company is property development, is incorporated in Great Britain and registered in Scotland. The Society's investment value in Scotmid - Miller (Great Junction Street) Limited represents 50% of the net assets/liabilities of the companies. The most recent balance sheets of the company is shown below.



## 11. investments - continued

	Scotmid - Miller (Great Junction Street)	
	2019-20	2018-19
	£000	£000
gross assets	6	6
gross liabilities	(22)	(22)
net liabilities	(16)	(16)
net investment	(16)	(16)

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 been completed, no significant further liabilities are expected to arise.

	2019-20	2018-19
	£000	£000
<b>12. debtors and prepayments due within one year</b>		
trade debtors	815	966
prepayments and other debtors	10,727	11,559
	<u>11,542</u>	<u>12,525</u>

	2019-20	2018-19
	£000	£000
<b>13. creditors falling due within one year</b>		
trade creditors	19,977	21,830
holiday pay	365	333
VAT	2,109	2,102
funeral bond deferred income	1,117	1,144
other sundry creditors	4,964	3,498
accrued charges	13,652	10,666
PAYE and social security	693	645
bank loan (see note 14)	-	37,000
obligations under finance leases (see note 14)	525	510
corporation tax payable	522	355
	<u>43,924</u>	<u>78,083</u>

## Notes to the Group Accounts

	2019-20 £000	2018-19 £000
<b>14. creditors falling due after more than one year</b>		
bank loans	37,000	-
obligations under finance leases	566	1,091
funeral bond deferred income	13,128	12,706
	<u>50,694</u>	<u>13,797</u>
<b>borrowings are repayable as follows:</b>		
<b>bank loans</b>		
between two and five years	2,250	-
after five years	34,750	-
	<u>37,000</u>	-
on demand or within one year	-	37,000
	<u>37,000</u>	<u>37,000</u>
<b>finance leases</b>		
between one and two years	320	525
between two and five years	246	566
	<u>566</u>	1,091
on demand or within one year	525	510
	<u>1,091</u>	<u>1,601</u>
<b>funeral bond deferred income</b>		
between one and two years	1,117	1,144
between two and five years	3,351	3,432
after five years	8,660	8,130
	<u>13,128</u>	12,706
on demand or within one year	1,117	1,144
	<u>14,245</u>	<u>13,850</u>
<b>total bank loans, deferred income, and finance leases excluding bank overdraft</b>		
between one and two years	1,437	1,669
between two and five years	5,847	3,998
after five years	43,410	8,130
	<u>50,694</u>	13,797
on demand or within one year	1,642	38,654
	<u>52,336</u>	<u>52,451</u>

The above bank loans are secured by a bond and floating charge over specific properties owned by the Society and the remaining assets held by the group, excluding certain properties held by Scotmid Pension Limited Partnership.

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

Third party funeral bonds are held at fair value with market valuation being provided by Insurer. Scotmid funeral bonds are assessed to provide an expected return of the average cost of a funeral with interest applied and recognised through the profit and loss account.

The Group's bank loan facilities moved from RBS to HSBC during the year. Funding covering 5 years with an option to extend for 2 further years includes a £40,000,000 Revolving Credit Facility and a £4,000,000 Overdraft. At year end a loan balance of £37,000,000 (2018-19: £37,000,000) existed. Gross borrowing to net assets, Minimum EBITDA, and Capital Expenditure are covenants associated with the facility. Interest rate is LIBOR plus range 1.05%-1.2% during the year.

<b>15. provisions</b>	<b>£000</b>
26 January 2019 utilised	(2,144) 260
25 January 2020	<u>(1,884)</u>

Provisions include costs that will fall due greater than one year and include store closures, dilapidation and onerous leases.

<b>16. derivatives</b>	<b>2019-20</b>	<b>2018-19</b>
	<b>£000</b>	<b>£000</b>
<b>derivative financial instruments held to manage interest rates</b>		
interest rate derivatives (at fair value)	<u>(24)</u>	<u>(27)</u>

The Society's interest rate derivatives with a value of £10,000,000 have been taken out with HSBC to hedge interest rate risk on the bank loan and are measured at fair value using mark to market price at each reporting date. The resulting gain or loss is recognised in the profit and loss account. The Society does not enter into derivatives for speculative purposes. These derivatives mature between March 2023 and March 2024. In January 2019 the Society held two derivatives with RBS, one of which matured in February 2019 and one which was cancelled in March 2019.

<b>17. share capital</b>	<b>2019-20</b>	<b>2018-19</b>
	<b>£000</b>	<b>£000</b>
at beginning of year	6,059	6,050
interest	<u>65</u>	<u>67</u>
	6,124	6,117
contributions	<u>78</u>	<u>89</u>
	6,202	6,206
withdrawals	(82)	(147)
at end of year	<u>6,120</u>	<u>6,059</u>

(i) share capital comprises 6,120,000 shares (2018-19 - 6,059,000) of £1 attracting interest at 1.25% (2018-19 1.25%).

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

(iii) each member is entitled to one vote, regardless of the number of shares held.

## 18. accounting for pension costs

The Society contributed to a number of defined contribution pension schemes during the year. The assets of these schemes are held separately from those of the Society in independently administered funds. The costs relating to these schemes are included within note 4. The NEST scheme is the default scheme available to new employees.

The Society operates a defined benefit funded pension scheme, the Scottish Midland Co-operative Society Pension Plan (the Scotmid scheme). The scheme has three sections, the Scotmid Final salary section, the Penrith Final salary section and the Retiral Cash Balance section. The Penrith Final salary section was created following the bulk transfer of all assets, liabilities and members from the Penrith Co-operative Society Limited Superannuation Fund (the Penrith scheme) on 31 December 2013. The Scotmid and Penrith Final salary sections are both closed to new entrants and ceased future accrual on 15 June 2013. The Retiral Cash Balance section became available to new entrants, subject to membership criteria, from 1 March 2013.

### 18. accounting for pension costs - continued

The most recent full actuarial valuation was carried out at 28 January 2017 and updated on 25 January 2020 by Mr Martin Smith, Fellow of the Institute and Faculty of Actuaries. The actuarial valuation method used was the projected unit method.

the major assumptions used by the actuary were		at 25 January 2020	at 26 January 2019
rate of increases in pensions accrued post 05/04/97	LPI 5% (RPI)	2.80%	3.00%
	LPI 2.5% (RPI)	2.00%	2.10%
rate of increase in deferred pensions	LPI 2.5% (RPI)	2.50%	2.50%
rate of increase in deferred pensions	LPI 2.5% (CPI)	1.85%	2.10%
discount rate		1.75%	2.70%
inflation assumption		2.85%	3.10%
life expectancy retiring today	male	85.1 years	85.4 years
	female	88.8 years	89.0 years
life expectancy in 20 years	male	86.8 years	87.1 years
	female	90.4 years	90.6 years

Investigations have been carried out within the past four years into the mortality experience of the Society's defined benefit schemes. These investigations concluded that the current mortality assumptions include sufficient allowance for future improvements in mortality rates. The above assumed life expectations are based on retirement at age 60.

Amounts recognised in the profit and loss account in respect of these defined benefit schemes are as follows.

	2019-20	2018-19
	£000	£000
current service cost	1,556	1,592
net interest cost	508	495
	<u>2,064</u>	<u>2,087</u>

The amount included in the balance sheet arising from the Society's obligations in respect of its defined benefit retirement schemes is as follows.

	at 25 January 2020	at 26 January 2019
present value of defined benefit obligations	(100,494)	(86,053)
fair value of scheme assets	78,638	66,817
deficit	<u>(21,856)</u>	<u>(19,236)</u>
net liability recognised in the balance sheet	<u>(21,856)</u>	<u>(19,236)</u>

Seaton Valley Co-operative Society Ltd shared a funded defined pension scheme with Allendale Co-operative Society Ltd. Additional contribution payments made by Scotmid towards the opening deficit based on the present value at time of merger have moved the balance into a surplus of £32,000 in the year, £31,000 deficit in prior year.

<b>18. accounting for pension costs - continued</b>	<b>2019-20</b>	<b>2018-19</b>
<b>analysis of the movement in the scheme deficit in the year</b>	<b>£000</b>	<b>£000</b>
opening deficit in the scheme	(19,206)	(19,246)
current service cost	(1,556)	(1,592)
contributions	2,326	3,151
net financing charge	(508)	(495)
actuarial loss	(2,944)	(1,171)
gains on settlements	-	147
<b>closing scheme deficit</b>	<b>(21,888)</b>	<b>(19,206)</b>
Seaton Valley & Allendale Society pension surplus/(deficit)	32	(30)
<b>total deficit</b>	<b>(21,856)</b>	<b>(19,236)</b>
<b>reconciliation of present value of scheme liabilities</b>	<b>£000</b>	<b>£000</b>
opening defined benefit obligation	86,053	88,474
service cost	1,556	1,592
interest cost	2,306	2,256
contributions by employees	724	782
actuarial loss/(gain)	13,403	(2,777)
benefits paid	(3,486)	(3,635)
liabilities extinguished on settlements	-	(575)
contribution towards Seaton Valley pension fund	(62)	(64)
closing defined benefit obligation	<u>100,494</u>	<u>86,053</u>
<b>reconciliation of present value of scheme assets</b>	<b>£000</b>	<b>£000</b>
opening fair value of the scheme assets	66,817	69,134
expected return	1,798	1,761
actuarial gain/(loss)	10,459	(3,948)
contributions by employer	2,326	3,151
contributions by employees	724	782
benefits paid	(3,486)	(3,635)
assets distributed on settlements	-	(428)
closing fair value of the scheme assets	<u>78,638</u>	<u>66,817</u>
<b>analysis of the fair value of scheme assets at the balance sheet date was as follows</b>	<b>£000</b>	<b>£000</b>
equities	32,849	37,102
other	1,848	3,267
asset backed funding arrangement contribution	969	969
buy-in	21,590	20,630
liability driven investment	21,382	4,849
total market value of assets	<u>78,638</u>	<u>66,817</u>

In setting the expected return on the assets as at 25 January 2020, we have taken into account the yields on government bonds and quality corporate bonds and the advice of Mercer's in-house investment consultancy practice.

## Notes to the Group Accounts

### 18. accounting for pension costs - continued

	2019-20 £000	2018-19 £000
<b>amounts taken to the consolidated statement of comprehensive income</b>		
actual return less expected return on pension scheme assets	10,459	(3,948)
experience gains/(losses) arising on the scheme liabilities	407	(180)
changes in assumptions underlying the value of scheme liabilities	(13,810)	2,957
actuarial loss before tax adjustments	<u>(2,944)</u>	<u>(1,171)</u>

### 19. cash flow statement : reconciliation of surplus for the year on ordinary activities to net cash inflow from operating activities

	2019-20 £000	2018-19 £000
operating profit	7,632	8,291
<b>adjustment for</b>		
gain on investment properties	(3,022)	(3,754)
surplus on disposal of fixed assets	(657)	(1,495)
depreciation charges	8,115	7,938
impairment of fixed and other assets	836	-
amortisation of goodwill	1,877	1,877
increase in stocks	(434)	(1,465)
decrease in debtors	983	1,792
increase in creditors and other provisions	2,362	1,466
movement in pension liability	(832)	(1,621)
movement in related party investment	-	27
corporation tax paid	(832)	(868)
pension funding credit on curtailment	-	(147)
net cash inflow from operating activities	<u>16,028</u>	<u>12,041</u>

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

	2019-20 £000	2018-19 £000
increase/(decrease) in cash for year	3,552	1,965
cash outflow from change in net debt and lease financing	512	1,343
movement in net debt for the year	<u>4,064</u>	<u>3,308</u>
opening net debt	(29,433)	(32,741)
closing net debt	<u>(25,369)</u>	<u>(29,433)</u>

cash flow statement: analysis of net debt	at 26 January 2019 £000	cashflow £000	other non-cash changes £000	at 25 January 2020 £000
cash at bank and in hand	9,170	3,552	-	12,722
debt due after 1 year	-	(37,500)	500	(37,000)
debt due within 1 year	(37,000)	37,500	(500)	-
finance leases repaid	(1,603)	512	-	(1,091)
	(38,603)	512	-	(38,091)
total	(29,433)	4,064	-	(25,369)

## 22. operating lease commitments

	land & buildings	plant, vehicles & fixtures	land & buildings	plant, vehicles & fixtures
	2019-20 £000	2019-20 £000	2018-19 £000	2018-19 £000
<b>leases which expire</b>				
within one year	558	53	724	106
within two to five years	6,666	939	6,469	370
after five years	16,178	-	17,696	-
	23,402	992	24,889	476

At 25 January 2020 the commitment to make total future minimum lease payments in respect of operating leases is shown above.

## 23. related parties

There were no transactions undertaken in the year with related parties other than those with key personnel management as disclosed in note 4.

## Board Members

Board Directors	Board	General Purposes	Audit	Remuneration	Search
Mr H Cairney (P) †	(C) 13	(C) 4			(C) 4
Mr J Watson (VP)	13	4		(C) 2	
Mrs S Downie	12	3			4
Mr I Gilchrist †	11				3
Ms K Harmon	9				3
Dr R McCready †	12			2	
Mr J Miller	13			2	
Mr D Paterson	13		4		
Mr M Ross †	11		3		
Mr A Simm	11	4		0	
Mrs G Smallman	12			1	
Mr E Thorn	12		(C) 4		
Miss A Williamson	12	3	3		
<b>Total meetings held</b>	<b>13</b>	<b>4</b>	<b>4</b>	<b>2</b>	<b>4</b>

### Meetings held from 27 January 2019 to 25 January 2020

P President | VP Vice President | C Committee Chair

† Directors whose term of office will complete at AGM 2020 and have been nominated to serve.

Harry Cairney, David Paterson and Jim Watson are Directors of Scotmid Pension Trustee Limited, the sole trustee for the Scottish Midland Co-operative Society Limited Pension Plan. Eddie Thorn is a Director of Co-operatives UK and David Paterson is a Director of Co-operative News and a Member of The Co-operative Group Member Council.

John Brodie is a Director of the Federal Retail Trading Services Limited, Edinburgh Children's Hospital Charity, Scotmid Pension Trustee Limited, Scotmid-Miller (Great Junction Street) Limited, Task Trading Limited and The Start Up Drinks Lab Limited.



East Regional Committee		West Regional Committee		North Regional Committee	
Miss A Williamson (C)	7	Mr A Simm (C)	7	Mrs S Downie (C)	7
Mr H Cairney (VC) ♦★	8	Mr J Watson (VC)	8	Mr A Cullen (VC)	7
Mr D Paterson (MS)	8	Mr M Ross (MS) ♦★	7	Mrs M Smith (MS)	8
Mr A Clark Hutchison ★	8	Mr S Ballantyne	8	Mrs A Anderson (R 30/4/19)	5
Mr C Henderson ♦	5	Mr S Curran (E 29/4/19)	7	Mrs E Farquhar	5
Mrs N Hill	8	Mr I Gilchrist ♦★	8	Mrs J Garnes	4
Mr K Kelly ♦	7	Mr J Gilchrist ‡	5	Mr A M Maclean •	4
Mr J McKenzie ★	7	Ms K Harmon	8	Dr R McCready ♦★	8
Mrs R McCabe ★	6	Mrs M Kane ♦	6	Mrs S McSorley (E 30/4/19)	5
Mr J Miller	8	Mr J Mills	7	Mr D Patterson ♦	6
Mrs J Reid ♦	7	Ms M Nolan (E 29/4/19)	5	Ms E Pipe	7
Mrs G Smallman	7	Mr G Randell	6	Mr A Stokes	8
Mr E Thorn★	7	Mrs K Scott ♦	8	Mrs D Taylor ♦	6
		Ms R Smith	5		
<b>Total meetings held</b>	<b>8</b>	<b>Total meetings held</b>	<b>8</b>	<b>Total meetings held</b>	<b>8</b>

### Meetings held from 27 January 2019 to 25 January 2020

C Committee Chair | VC Vice Committee Chair | MS Minute Secretary | E Elected | R Retired

- ♦ Regional Committee Members whose terms of office will complete in at AGM 2020 and have been nominated to serve on a Regional Committee.
- ★ Regional Committee Members who has been nominated by their Regional Committee to stand for election to the Board and is eligible for election.
- ‡ Jim Gilchrist, West Regional Committee Member and former Director will retire on 27 April 2020 with the thanks of the Society when his term of office will complete.

A Lakes & Dales Panel was formed in 2019 to consider applications for Community Grants and act as the Community Connect Selection Panel for the Lakes & Dales region. The Panel is chaired by Harry Cairney with John Mills, Rebecca Smith and Christopher Henderson co-opted to serve and they may attend either Regional Committee or Panel meetings.

- Angus Maclean, North Regional Committee member sadly passed away on 29 July 2019.







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