SCOTTISH MIDLAND CO-OPERATIVE SOCIETY LIMITED

Annual Report

& Financial Accounts

for year ending 29 January 2022

Fair Tax® accredited

Scotmid coop

Turnover
£403m

Trading profit
£5.7m

Net assets
£112.7m

Scotmid coop

OUR CORE PURPOSE:

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

Major refits completed at Prestonpans, Barnton, Menstrie & Barlanark. New store acquired in Perth.

£220k raised for our charity of the year partners.

Community Connect Scheme relaunced with £84,000 shared between 12 good cause groups.

CONTENTS

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

Andrew
Clark Hutchison

Sheila Downie

Iain Gilchrist

Kaye Harmon

Jim Watson
Vice President

Keith Kelly

Richard McCready

David Paterson

Michael Ross

Andy Simm

Eddie Thorn

For Board and
Committee attendance
see pages 56-57

Management Executive

John Brodie
Chief Executive Officer

John Dalley
Chief Financial Officer
& Secretary

Margaret Anne Clark
Head of People &
Performance

Stewart Dobbie
Head of Innovation
& Change

Maurissa Fergusson
Head of Property &
Facilities

Kevin Plant
Head of Food

Karen Scott
Head of Semichem

OVERVIEW

The opening of our new Perth store in September 2021.

The Directors are pleased to present their report for the financial year ended 29 January 2022.

The Society's trading profit for the 52 weeks ended 29 January 2022 was £5.7m, 11% down on the £6.4m achieved in the 53 week period last year. This has been the second financial year that has been impacted by the Covid pandemic and the varying impact it has had on our businesses. As we have gradually emerged from the crisis and moved to the "living with Covid" stage, the impact on the Society's businesses has unwound. In particular, food convenience saw a reduction in trade compared to the lockdown period in early 2020 while Semichem made significant progress on the journey to recovery after the pandemic. Total turnover for 52 weeks was £403m, down £6m on the 53 weeks last year. The Society's net asset backing remained strong growing to £112.7m.

Semichem stores were fully open in 2021-22 and saw a steady improvement in sales as the year progressed. In contrast, consistent with the wider convenience sector, our food stores had a reduced local shopping benefit compared to the lockdown periods in 2020. The business also faced challenges in supply chain and record sickness levels from the Omicron variant. Our property business had a resilient performance coming out of the pandemic and Scotmid Funerals saw a return of demand for full service traditional funerals.

Scotmid's Membership & Community activity continued to be impacted by Covid precautions during the year. The focus remained on our core purpose through a community-based response including a wide range of financial and other support to local community groups. Community Connect vote collection in-store was re-instated and members were able to cast their votes for the OGM. There were still some constraints on our work for our charity partners but we are delighted that the Society members, colleagues and customers have raised £220k.

Last year-end we highlighted the planning uncertainty surrounding the timing of the end of the crisis. Once again, the difficulties of forecasting in the current environment became clear when the pandemic was prolonged due to the emergence of the Omicron variant. As well as record levels of sickness due to Omicron, the Society has also had to navigate through some major challenges in the grocery supply chain. We are very proud of our colleagues who have continued to deliver for our communities despite the significant challenges faced. Looking forward, there is still planning uncertainty concerning the exit from the pandemic but it is clear that the Society faces significant inflationary cost challenges in 2022. Our core purpose of serving our communities and improving people's everyday lives will continue to guide us through these uncertain times which have become more uncertain by recent geo-political events.

FOOD RETAIL

In Scotland, the Covid restrictions in place at the start of 2021 weren't fully lifted until August. The easing of restrictions saw consumers returning to hospitality venues and other mainline grocers. Then in late October, home working and hospitality restrictions were re-introduced because of the emergence of the Omicron variant. With consumers more accustomed to the impact of lockdown, our Scotmid stores didn't experience the same panic buying compared to the first national lockdown in March 2020 when our customers shopped less often but bought more on each visit. This position has progressively trended back towards pre-pandemic levels with the customer count increasing and the average basket spend falling. There has also been some recovery in our city centre and tourist dependent stores which were hardest hit by working from home, hospitality and tourism restrictions. Once again, thanks to the dedication of colleagues, we kept all stores trading normal hours despite severe pressure on staffing.

During the year we experienced major disruptions in the UK-wide supply chain as a result of a combination of issues including a severe shortage of HGV drivers, other staff shortages (due to self-isolation) and disruption caused by Brexit. This worsened during the Omicron spike with very high levels of sickness and self-isolation due to the transmissibility of the virus. There were also some specific issues relating to the co-op supply chain as it invested for the future. Throughout this disruption Scotmid continued to utilise the Semichem distribution network and received important extra support from our local suppliers to supplement the national co-op network.

Above left: The refurbished store at High Street, Prestonpans.

Top & above right: The new "Kitchen" in our Uddingston store which features a new range of desserts.

Above: The opening of the refitted Hamilton Place store.

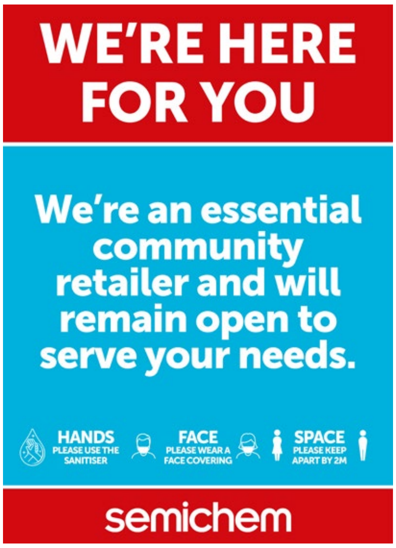
The programme of investment in the store estate was delivered successfully despite the significant pandemic related challenges around cost inflation and availability of construction materials. As well as a number of major refits and a new store in Perth, further investment was made in environmentally friendly fridges. The successful development of our Food to Go (FTG) offer continued, supported by investment in new counters, ovens, dishwashers and digital screens. Other FTG development work included the opening of the "Kitchen" in our Uddingston store. Investment in technology included the rollout of electronic shelf edged labels to 40 stores and a new FTG allergen labelling solution to ensure compliance with Natasha's Law, which came into force during the year.

Our "Snappy Shopper" home delivery service saw growth through the peak of the crisis and we have expanded it to more stores. The success of this local service was acknowledged within the wider grocery industry with recognition for our Armadale store at the Scottish Grocer Awards and the UK Convenience Retail Awards.

Examples of investment in the store estate with refits at Whitburn (top) and Kilmarnock (above). This also included the introduction of "Grab & Go" and fresh coffee offering in selected stores.

SEMICHEM

2021 proved to be another challenging period for the retail sector. However, unlike last year, Semichem continued to trade through the lockdown periods when most non-essential retail and hospitality was closed. Sales steadily increased during the year as footfall on the high street started to recover with the phased easing of restrictions and the re-opening of 'non-essential' retail. The Semichem teams responded positively to this difficult trading environment, making the most of the sales opportunities available and controlling costs. With successful Christmas trading, Semichem delivered a strong improvement in performance compared to last year.



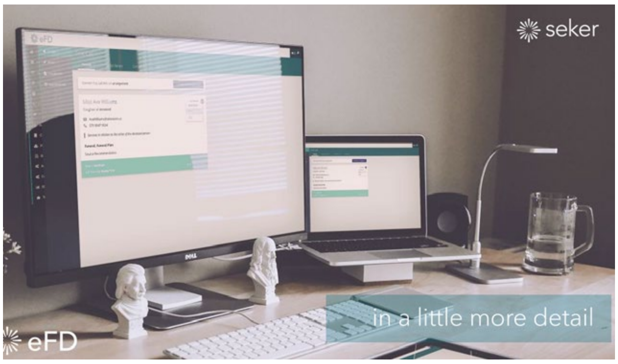
During the year, product selection and availability was a challenge, not only with the impact of the pandemic but also Brexit and global issues resulting in a shortage of materials. Brexit has caused several issues including costs increasing due to the shortage of shipping containers, delays at the docks and the lack of HGV drivers pushing transport costs and delays up. Northern Ireland has also been impacted by the new protocols for the transportation of goods from Great Britain, adding cost and administration into our operation.

To drive sales, we expanded our range of pet products to respond to the increase in pet ownership during the pandemic. Similarly, we also increased homeware, outdoor toys and gardening products. Restrictions on foreign travel impacted our travel ranges including luggage and suncare, so we switched emphasis to 'staycation' to make the most of the summer.

Last year we announced the closure of certain stores in high street locations that were no longer viable. 19 stores were closed as part of this programme during the year. Our priority during the closure process was to provide support to affected colleagues both personally and professionally. Our investment programme in the estate resumed in the second half of the year with refits at Cupar and Whitburn and a store re-lay at Bellshill. Trials of snacking modules and chillers are in place across six stores. Support infrastructure investment included store security equipment, warehouse forklift trucks and renewal of the HGV fleet.

"The Semichem teams responded positively to this difficult trading environment, making the most of the sales opportunities available and controlling costs."

FUNERAL



Scotmid Funerals conducted fewer funerals in 2021 due to a reduction in severity of the pandemic and the 53rd week. However, the easing of the measures that limited the number of mourners and limousines has seen a return to more traditional full service funerals. Throughout these difficult times, our team of funeral colleagues have continued to provide the best funeral possible and a personalised choice in memory of loved ones.

In contrast to the reduction in funeral numbers, as Covid restrictions eased, Scotmid funerals has seen an increase in the number of "pre-need" funeral plans written. Currently we are authorised and regulated by the Funeral Planning Authority, a self regulating organisation. Following a Treasury investigation all funeral plans will now become regulated by the Financial Conduct Authority. The regulation will come into force in July 2022 and we are working on becoming an Appointed Representative in partnership with Ecclesiastical Planning Services who will act as our Principal under FCA regulation. This change is regulatory and will not affect the actual delivery to plan holders at the time of need.

The focus on the continuous improvement of the facilities and service we offer to our clients continues. Our funeral software was upgraded to a new cloud-based funeral management system, in addition, three funeral homes were refreshed, and a private ambulance acquired.

Top left: The new private ambulance.

Top right: Liberton was one of three funeral branches to receive a refresh during the year.

Bottom left: Investment was also made in a new funeral management system.

Bottom right: Advertising campaigns were conducted to promote "pre-need" funeral plans.

"Throughout these difficult times, our team of funeral colleagues have continued to provide the best funeral possible and a personalised choice in memory of loved ones."

PROPERTY

Above: Interiors of the new energy efficient flats above the Leven Street food store in Edinburgh.

Scotmid's property business saw an encouraging recovery in property income during the year. Last year was materially impacted by the first lockdown but both commercial and residential rental income have been robust and recovered to normal levels.

Commercial rental income benefitted from fewer defaults and pandemic rent waivers and several new lettings were concluded in the period. Our industrial assets continued to perform well with both rental and capital growth being achieved.

Residential rental income also grew and this was achieved through a combination of new investment and low voids. The first half was slower but the lettings market picked up from the summer and in the second half we enjoyed very low void levels as empty properties let quickly. Our major development of eight new energy efficient flats above the new food store at Leven Street, Edinburgh was completed. A successful example of developing an underutilised site for the long-term benefit of the Society and the local community.

An improvement in the residential market in Edinburgh and success negotiating the lease renewal and rent reviews on a key industrial asset saw the (like-for-like) valuation of the investment property portfolio increase by £2.9m. With the benefit of investment during the year, the year-end valuation of the portfolio exceeded £100m for the first time.

"With the benefit of investment during the year, the year-end valuation of the portfolio exceeded £100m for the first time."

SOCIETY MATTERS & CENTRAL SUPPORT

Scotmid's surplus after tax for the financial year was £4.2m, £2.9m up on last year. The main reasons for the higher surplus this year were a £2.4m increase in the property revaluation gain and a £0.8m decrease in finance charges (due to mark-to-market gains on interest rate swaps and lower net debt). The financial market conditions (increase in long term interest rates and positive investment performance) and Society contributions resulted in a £7.2m reduction in our pension deficit. Overall, it was a strong year financially for the Society with net assets up by £9.9m to £112.7m and net debt down by £7.4m.

Scotmid continued to support local businesses through the Society's complementary diversification strategy. During the year a further investment in Product Guru was made to build on the success of its on-line virtual pitches during the pandemic. The investment helped to support an increase in jobs, investment in IT and the launch of new hybrid events. The Society also completed a minority investment in The Alcoholic Water Company (AWC) alongside a co-investor. AWC's business is focused on the "hard seltzer" market, a product category that has grown rapidly in the USA. The company launched its first premium product "Lilo" earlier this year. The Start-Up Drinks Lab has successfully refocused on its core proposition as a one-stop drinks innovation facility and with growing demand, the business is looking for larger premises to support expansion to the next stage.

Central support teams provide support to the Society's businesses and are responsible for Society-wide functions. A major focus

Above left: The Startup Drinks Lab.

Above right: "Lilo" Hard Seltzer, produced by The Alcoholic Water Company.

Opposite page top left and right: Examples of new electronic shelf edge labels including new allergy notices.

Opposite page below left: Graduates of the GROW programme, which recommenced following relaxation of Covid restrictions.

> "Scotmid continued to support local businesses through the Society's complementary diversification strategy."

was the support of all Society colleagues with their health and wellbeing, providing accessible resources on the internal and external support available. Central teams focused on supporting operational colleagues to manage the ongoing impact of the pandemic, particularly through the high absence levels due to the Omicron variant. Regular communication updates have ensured our colleagues have been fully informed of the key issues affecting them and support has been provided to manage flexible furlough, self-isolation and the increased demand for recruitment across the business. Work with the Kickstart programme also helped to recruit over 100 candidates with 50% of those completing the programme retained in permanent employment. The programme provides work experience opportunities for young people aged 18-24 who have struggled to access employment opportunities. Support was also provided to a range of important business development projects including the Electronic Shelf Edge Labels trial, Food to Go labelling, food waste reduction and "The Hive" (our new cloud-based platform for sharing data, task and documents). Extra investment has also been made in critical areas such as cyber security and the upgrade of our central IT infrastructure.

"Support was also provided to a range of important business development projects including the Electronic Shelf Edge Labels trial"

Fair Tax® accredited

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

Membership Development Community & Charity Activity

In September, the Society held its 2021 Ordinary General Meetings. Hundreds of members came together across three venues in Edinburgh, Hamilton and Aberdeen. Feedback from attendees following the return to in-person meetings was very positive.

£84,000 was shared by Community Connect groups in Autumn 2021, based on member votes. The Community Connect winners in the Lakes & Dales area were announced at a community event in Frosterley Village Hall. The event gave an opportunity to meet members on a smaller scale, an approach that will be trialled elsewhere in the coming year.

The Board approved the Society's commitment to the BRC climate change roadmap and a sustainability manager has been recruited to help us continue that journey.

The Society continued to deliver community-based funding and support. Donations were made to large projects delivering wide-scale benefits, an international project in partnership with other co-operatives and smaller organisations reaching into the hearts of the communities we serve.

Large organisations supported included the cooperation band, Cruse Scotland, an anti-poverty project led by Kirkcaldy-based charity The Cottage Family Centre, Pancreatic Cancer UK, and St Andrew's First Aid. A further donation was made to the Retail Trust, who have been caring for and protecting the lives of people working in retail for 190 years. Internationally, SEWA helped more than forty young women in India develop new skills and secure regular income through a partnership with co-ops across the UK.

Other Community and Charitable Activities

A Winter Giving campaign focused on donations to more than 80 charities and organisations tackling homelessness and food poverty. Good causes received a share of £55,000, ensuring that as many people as possible had food and shelter over the coldest time of the year. Causes that benefitted included Shelter Scotland (Aberdeen and Dundee), Fauldhouse & Breich Development Trust, The People's Pantry (Coatbridge) and New Hartley Food Hub.

Opposite page top: Highland & Island Blood Bikes were one of three good cause groups to receive a £15,000 funding award from the Community Connect Scheme.

Opposite page insert: Cuthbert and Tildy, the new charity mascots for CHAS.

Top left: Harry Cairney & Karen Scott visited the Beatson Institute to hear about the reseach being conducted by Pancreatic Cancer UK.

Top right: Staff from the Coupar Angus store climbed Ben Nevis to fundraise for CHAS.

Bottom left: Membership Manager, Lynne Ogg, with representatives of Shelter Scotland, one of the beneficiaries of the Winter Giving campaign.

Bottom right: Harry Cairney and Membership Manager, Kirsty Connell, launch the Kiltwalk in aid of CHAS.

Following the decision to extend the partnership until August 2022, fundraising continues for Children's Hospices Across Scotland in conjunction with Northern Ireland Children's Hospice, Jigsaw and St Oswald's Hospice. Funds raised through the partnership will enable vital development and expansion of outreach services. Over 2,000 entries were received from children across Scotland in response to a competition to design a Scotmid/CHAS partnership mascot. The judges chose a second design, Tildy the Toadstool, to give Cuthbert the Fox a puppet pal.

Scotmid colleagues have continued to show their commitment by taking part in numerous fundraising events, including climbing Ben Nevis, walking 10 miles across Edinburgh, braving an intense zip line course and donning their best tartan for the return of the Kiltwalks. It is thanks to the care and generosity of Scotmid, its members, colleagues and customers that CHAS has been able to continue supporting families across the country, ensuring that no-one has to face the death of their child alone.

Political Donations

Donations to the national Co-operative Party amounted to £15,075 and the Scottish Co-operative Party of £15,000.

On behalf of the Directors, I would like to thank all members, customers and colleagues for their support over the year.

Signed on behalf of the Directors.

Harry Cairney
Society President

COMMUNITY CASE STUDIES

EAST REGION

The Society was delighted to assist with Prestonpans' first 24/7 accessible community defibrillator, installed outside the High Street store.

Brian Weddell, Scotmid East Regional Committee member and former Chairperson of the Community Council said "This is a great example of community partnerships delivering much-needed resources for local people and visitors. Easy and quick access to defibrillators saves lives. As Prestonpans High Street is also part of the John Muir Way, a popular route for cyclists, it is an excellent location for a defibrillator".

WEST REGION

West Regional Committee Member, Andy Simm, presented the MS Society North Lanarkshire Group with a £500 Community Grant to help them provide a counselling service to support good mental health for people living with Multiple Sclerosis and their families. From providing information on local services to opportunities to meet others in the area and more, the North Lanarkshire Group is part of a large network of MS Society groups across the UK.

Details of more Community Grants and activity can be found at **scotmid.coop**

NORTH REGION

Poppy Scotland Montrose unveiled a locally crafted Poppy Centenary Bench, funded by Scotmid.

Montrose team member Jim Strachan said: "We are very grateful to Scotmid for providing the financial support. We have worked with several local businesses and the parks department; it has been a collaborative project. As well as honouring those who made the ultimate sacrifice, the bench also features HMS Montrose."

Colleagues and Committee Members, Alan Stokes, David Patterson, and Marjory Smith, proudly represented the Society at the unveiling ceremony.

LAKES & DALES REGION

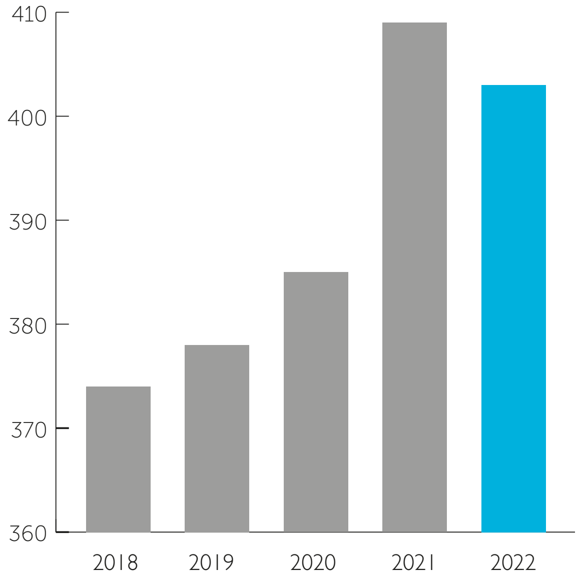
The Seghill Clean Team is a group of local residents in the Seaton Valley area who have joined together to address the issues of litter in the village and surrounding countryside. Everyone is welcome to join and litter pickers and bags are available for people who want to support the initiative. Organised walks and meetings are planned on a regular basis to clear rubbish and fly tipping from the village and surrounding areas, making the area a better place for everyone to enjoy and live in. The Society awarded the group a Community Grant to purchase new litter pickers and bin loops.

Chris Henderson, East Committee Member for Lakes & Dales Region, joined the group during COP26 to lend a hand.

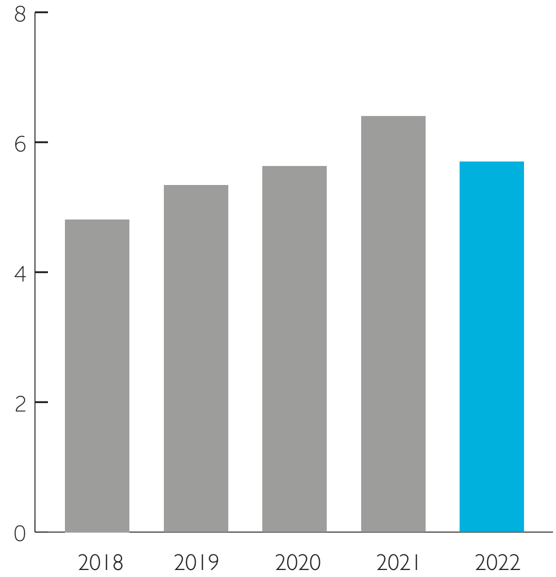
Group Five Year Summary

	2021-22	2020-21	2019-20	2018-19	2017-18
	52 weeks	53 weeks	52 weeks	52 weeks	52 weeks
number of members	158,155	156,603	155,997	155,343	268,125
	£000	£000	£000	£000	£000
turnover	403,276	409,084	384,952	377,856	373,712
trading profit	5,708	6,416	5,632	5,339	4,814
operating profit	7,439	4,623	7,632	8,291	7,924
surplus before taxation	6,530	2,836	5,680	6,360	5,958
surplus for the financial year	4,235	1,339	4,485	4,485	5,547
depreciation and amortisation	9,855	9,536	9,992	9,815	10,145
net finance costs	301	1,141	1,280	1,324	1,363
purchase of fixed assets	12,801	9,433	11,548	11,834	19,173
fixed assets	180,998	174,310	174,209	170,369	165,781
net current (liabilities)/assets	(2,327)	5,314	5,608	(31,608)	3,715
total assets less current liabilities	178,671	179,624	179,817	138,761	169,496
less long term liabilities	(43,153)	(49,189)	(50,694)	(13,797)	(48,510)
less provision for liabilities and charges	(5,188)	(2,823)	(2,190)	(2,703)	(2,090)
less pension liability	(17,608)	(24,759)	(21,856)	(19,236)	(19,340)
net assets	112,722	102,853	105,077	103,025	99,556
share capital	6,200	6,181	6,120	6,059	6,050
revenue reserves	65,291	58,222	61,249	62,135	62,936
non-distributable reserve	41,231	38,450	37,708	34,831	30,570
shareholders funds	112,722	102,853	105,077	103,025	99,556

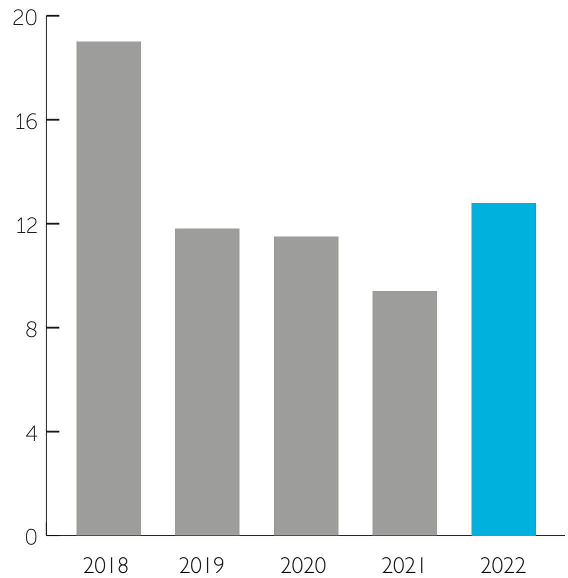
Turnover (£ millions)



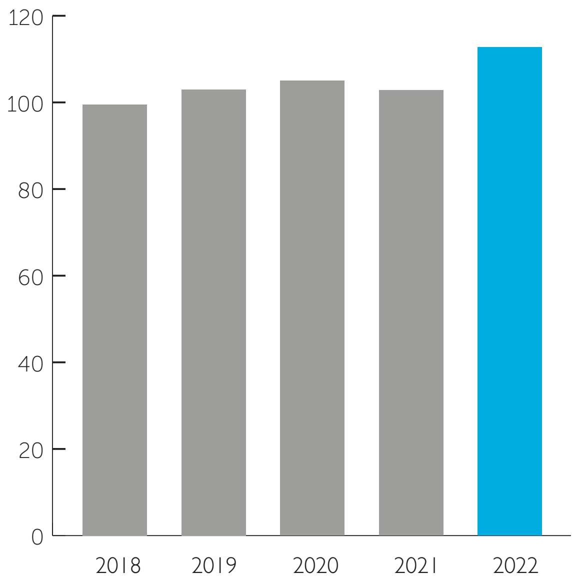
Trading profit (£ millions)



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 the Group financial statements in accordance with applicable law and regulations.

The Co-operative and Community Benefit Societies Act 2014 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 Group and of the income and expenditure of the Group for that period.

In preparing the Group 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, and
- assess the Group'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 Group 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 Group 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. Further details on going concern are provided on page 31.

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 sets out "a set of principles that all Co-ops can reflect on". The Society substantially complies with the Code, and is working through amendments introduced in November 2019 to consider implications for the Society and to develop or amend current practices to bring the Society's governance into line with the revised Code. In the limited number of cases where the Society adopts an alternative approach to the new Code, the background to the Society's approach is explained below. Board Committee Terms of Reference are in-line with the previous Code and will be reviewed when the new guidance on terms of reference becomes available.

The 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 the Annual Report:

1) Member Voice, Participation and Engagement:

The Board has considered various methods to encourage member participation at meetings. Biannual member meetings are usually held in the Society's three regions to encourage attendance and make meetings more accessible to members. Due to the pandemic, the Society held an online AGM in late April, and reverted to holding three regional in-person OGMs in October. Member feedback indicated that although the online events were well received, members enjoyed the opportunity to meet together face to face. An information pack providing further details of the agenda items relevant to each Region was posted to members registered to the event prior to the meeting. In addition, a number of video clips were made available both before and after the meeting. These included updates on awards made to supported Community Connect groups and funding given to local communities during the pandemic.

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 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 to invest and explore other new opportunities for development.

d) Society Culture:

During the year, the Board reviewed its long-term strategy for the development of the Society's culture, updating Scotmid's implementation of Co-operatives UK Blueprint for a Co-operative decade. The general aim of the strategy is 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 AGM 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, which 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 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. Regional Committee members must undertake specific training to be eligible for the Board. Additional training was offered during the year to compensate for the reduced amount of training offered in 2020/21. Sessions were conducted both in-person and online with new, bespoke sessions offered in Finance and Advanced Co-op Values & Principles. Positive feedback was received from the ability to attend in person or online and it was agreed to offer this choice in future.

5) Risk, Financial Management and Internal Control:

Audit Committee Financial Experience:

Two members of the Audit Committee are Fellows of the Chartered Banker Institute 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 usually held and advertised in our stores, on our website and by email. Due to Covid restrictions, one online AGM was held in April 2021 and three regional OGMs were held In September 2021 at which both regional democratic matters and Society-wide topics were considered.

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. Uncontested elections were held for Regional Committee places in 2021. 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. The Lakes & Dales Panel met 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 Code of Conduct was reviewed in 2021 and Standing Orders updated annually.

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, one Regional Committee member was elected to the Board, returning its size to 12 Directors at AGM 2021. Directors are nominated by Regional Committee members and elected by members from the Regions they represent. There are no retired or recently retired Board members and one Director 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 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.

Governance Report continued

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 three times in 2021/22. The President is not a member of the Audit Committee. Two Committee members are Fellows of the Chartered Banker Institute.

It is now 6 years since the Scotmid external audit was put out to tender and given the recent changes in the regulation of the audit profession the Audit Committee has decided that it is appropriate to benchmark KPMG's fee levels. The Audit Committee has therefore approved a process for a re-tender exercise in 2022, the results of which will be reported back to members at the OGM in October.

The Society has an Internal Audit Department reporting directly to the Chief Executive. An annual report for 2021/22 has been produced and audit plan for 2022/23 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 review of Co-ops UK updated guidance on terms of reference is awaited. The current terms of reference, 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 four Directors, none of whom are employees, 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 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 AGM. 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 the Society, although not in the format recommended in Co-operatives UK's best practice.

Search

The Search Committee is responsible for monitoring Board and Regional Committee effectiveness, member training, succession planning (Board, CEO & Secretary) and oversight of the Society's membership development and community strategy. The Committee consists of four Directors. Keith Kelly was newly appointed to the Committee during the year following his election to the Board.

Every three years the Board skills evaluation process is undertaken externally. The 2021/22 evaluation was conducted by Glasgow Caledonian University with Directors completing a refreshed self-assessment questionnaire using the format from previous years. One-to-one interviews were conducted online to enable the assessor to evaluate individual skills. The assessor also attended two Board meetings and a Remuneration Committee meeting by video conference to observe the operational aspects of the meetings and the Director's individual and collective board skills. The results and recommendations were presented to the Search Committee and the Board. The Board concluded that the Directors had met their responsibilities and agreed to progress the recommendations over an appropriate timescale.

The results and recommendations arising from the evaluation of the Regional Committee were also reviewed by the Search Committee following the annual planning and evaluation meetings. 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 the recommendations will be progressed over the course of the next couple of years.

Community Connect re-started in July 2021, enabling members to collect votes for their favoured Community Connect groups and cast them at the OGM. The Community Connect awards in the Lakes & Dales area were presented at a community and member event in Frosterley.

The Committee was pleased with the feedback from both its online AGM and in-person OGM, noting the positive comments from members attending online meetings, but agreed their preference to revert to in-person events. As a trial, it was agreed that a recording of the East AGM 2022 would be made so that registered members who were unable to attend in person could have the opportunity to view the event.

In line with the process in the Society's rules for members whom the Society has lost contact with, the details of 188,000 members were removed from the Membership Register in January 2022.

Additional training was offered during the year to catch up on the reduced amount of training offered in 2020/21. Sessions were conducted both in-person and online with new, bespoke sessions offered in Finance and Advanced Coop Values & Principles. Positive feedback was received about the option to attend in-person or online and it was agreed to offer this choice in future.

As part of the Committee's responsibility for succession planning the average length of service on the Board was 8 years, within the Society's 9-year balanced board policy. The Committee reviewed the composition of the Board's Committees and recommended the reappointment of Michael Ross (Audit Committee), Richard McCready (Remuneration Committee) and Kaye Harmon (Search Committee) for further three-year terms. In addition, Sheila Downie transferred from the Search Committee to the Remuneration Committee to fill the vacancy left by a retiring Director.

For and on behalf of the Board

Harry Cairney
President

John Brodie
Chief Executive Officer

John Dalley
Secretary

31 March 2022

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.

At the beginning of 2022, Scotmid appointed a Sustainability Manager to drive the next step in delivering the environmental goals and associated community and economic plans for the Society.

Co-operative values and principles will be central to our sustainability position.

The pandemic has continued to bring unprecedented challenge to our business during the last 12 months. The impact of the pandemic is a feature in many of the comparisons for the indicators provided.

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 would normally provide us with some information regarding our members' spend in-store. The use of this card was suspended for a considerable part of the year as we needed to reduce touch points to limit risk. We are unable to update the 2019 estimate of a 23% increased spend by members versus non-members as a result.

Member Democratic Participation

215 (2020-21 - 222) members attended the Society's second online Annual General Meeting on the 26 April 2021 to enable the democratic process to continue during the pandemic with members welcoming the return of face to face meetings for the OGMs in September 2021. Board and Regional Committee meetings were held by video conference throughout the majority of the year, returning to in-person meetings when restrictions were lifted.

Colleague and Member Training

The pandemic related staffing pressures required a very tailored and prioritised approach to training, however, we managed to increase the level provided this year to 22,301 hours, giving an average of 5.6 hours per colleague compared to an average of 4.2 hours in 2020-21. This training included 9,630 hours of e-learning which was up 12% on the prior year.

The majority of Board and Regional Committee training was provided via video conferencing sessions, with 2 sessions conducted on an in-person basis towards the end of the year when restrictions were lifted. Given the reduced number of training hours in 2020-21, additional training was offered with new, bespoke sessions delivered in Finance and Advanced Co-op Values & Principles. 273 hours were delivered compared with 247 hours in 2020-21. The number of training hours per "active" member increased to 1.6 hours from 1.1 hours in 2020-21 (where "active" membership for training purposes has been defined as the number of members attending the AGM).

Colleague Injury and Absentee Rates

Employee accidents recorded have increased to 325 this year compared to 245 in 2020-21. We have improved our reporting system which is now simpler to use and more comprehensive, with near-miss accidents being captured more effectively than before which may explain the increase in number. A high level of reporting is being actively encouraged. There were 14 reportable accidents involving colleagues compared to 21 in the prior year. This equates to 0.3% of the average total workforce. The high level last year covered the peak of the pandemic and the handling of high stock volumes may have been a factor. Non reportable accidents amounted to 7.9% of average workforce with a combined total of 8.2% (2020-21 – 6.7%). We continue to review any patterns that we see arising from these records and to focus on prevention.

Covid-19 has generated a record level of staff absence for a second year with 41,184 days lost (2020-21 – 37,859), an average of 7.47 days per employee. The Omicron variant proved particularly challenging at the end of the year. An Office of National Statistics Report, "Sickness and absence in the UK labour market 2020" shows a mixed picture for the first year of the pandemic but highlights that key workers who were not able to work from home including the "food and necessary goods" category, showed increases in absence compared to the general position of a decreasing trend.

Colleague Profile

Our average colleague numbers have remained level this year at circa 3,950, however following store closures and increased staff turnover in the second half of the year the closing position shows a reduction in staff numbers.

The colleague profile by gender at the year-end was 68% female and 32% male, which is broadly similar to the prior year and reflects a normal retail pattern of a predominantly female workforce.

Our profile by ethnicity is produced from a 2015 baseline. It has been adjusted for starters and leavers in subsequent years.

Ethnic Origin	% of workforce 2021-22	% of workforce 2020-21
Asian	2.70	1.80
Black	0.11	0.10
Other	0.41	0.60
White	96.78	97.50
Total	**100.00**	**100.00**

The ethnic mix of our colleagues 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

We have not been able to monitor customer satisfaction levels as exit survey activity was not deemed appropriate during the pandemic. We do however closely monitor and analyse our customer feedback to identify any themes we need to address. We have experienced a lower number of complaints this year compared to the prior year. This is likely to reflect the customer base and our colleagues becoming more accustomed to Covid-19 social distancing and mask-wearing requirements.

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 and publish a sustainability report annually. We have included our Modern Slavery Statement on page 27.

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 £635,000 (2020-21 – £700,000) donated. Throughout the pandemic the Society has continued to focus on its core purpose, serving our communities and improving peoples' everyday lives. Larger donations from the proceeds of the sale of single use carrier bags were made to Pancreatic Cancer UK as part of a two year funding agreement for their young leaders programme, The Cottage Family Centre - an anti-poverty project serving Fife, St Andrew's First Aid to provide funding for volunteers' uniforms, further funding to support the cooperation band and the bereavement charity, Cruse Scotland. Retail Trust, the organisation which has been caring for and protecting the lives of people working in retail also received a further donation of £10,000 to help support colleagues across our Society and the retail sector in general.

As part of the wider international co-operative movement, the Society joined with other retail co-ops to help SEWA in India to support more than 40 young women develop new skills and secure regular income. Our point of sale software provider, VME, converted to a co-operative society in September 2021 and we continue to utilise their products.

Our Community Connect initiative continued to support regional projects and members decided how to share £168,000 among 24 shortlisted Community Connect groups. A Winter Giving campaign focused on donations to tackle homelessness and food poverty through sharing £55,000 across 80 charities and community groups. More than 800 good local causes were supported throughout the year.

Due to the continued difficulties in fundraising, the Society decided to extend the charity partnership with Children's Hospices Across Scotland, Northern Ireland Children's Hospice, Jigsaw and St Oswald's until August 2022.

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. We receive estimated figures for our waste based on a percentage allocation from the co-op group who backhaul from stores and from our waste contractor who handles our Head Office and Funeral waste. These estimates lead us to report that we have recycled 6,300 tonnes of waste (2020-21 - 5,800) with a residual 40 tonnes being passed to landfill, reduced from 50 tonnes last year. Our proportion of waste recycled remains at 99% which is very close to the zero waste target. Minimising food waste remains a priority, with stores now fully utilising a new tool which provides suggested markdowns to help end of shelf life goods sell through and we are extending the reach of the "Too Good To Go" app which allows the online purchase for collection of bags of mixed goods going out of date.

Corporate Social Responsibility continued

Streamlined Energy and Carbon Report

ENERGY USAGE (kWh)	2021/22 UK only (no offshore)	2020/21 UK only (no offshore)
Electricity usage (kWh)	35,408,350	35,945,023
Gas usage (kWh)	5,806,430	6,589,047

EMISSIONS		
Emissions from combustion of gas (tCO2e) (Scope 1)	1,064	1,342
Emissions from combustion of fuel for transport purposes (tCO2e) (Scope 1)	639	540
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (tCO2e)(Scope 3)	35	25
Emissions from purchased electricity (tCO2e) (Scope 2, location-based)	7,526	8,380
Total gross (tCO2e)	9,264	10,287

INTENSITY		
Average number of employee	3,948	3,947
Intensity (Gross tCO2e/average employees)	2.35	2.61

Methodology

The SECR report is now in its second year of return. In year one, billing and metering data for all sites was used to calculate the emissions totals and fleet usage was also reported with gaps in data filled with industry average volumes or comparative size and use locations.

In year two, the reporting standards from the Green House Gas (GHG) protocol have been updated to reflect location based reporting and market based reporting.

For the purposes of the SECR, location based is currently the only requirement, however, to state that GHG protocol is being followed requires adherence to both sets of reporting. For the 2021 reporting period, and due to timescales for information received, the return will reflect location based reporting only.

We will begin to revise our reporting procedures in 2022-23 and data will be established with energy, waste and fleet suppliers to generate the required information at agreed points to allow the performance data to be monitored and as required, challenged for improvement, efficiencies and correction.

This will also allow for the enhanced GHG reporting protocols to be adopted.

Energy efficiency action

Scotmid Co-operative are committed to the UK Government's Clean Growth Strategy, to improve energy productivity and to invest in low carbon generating technologies. This programme of investment is reviewed on a quarterly basis by the executive management team.

The long term reduction of carbon has been driven through a programme of low energy efficiency investment. This investment included, but was not limited to, installation of replacement refrigeration that uses less energy and natural gases, monitoring systems for refrigeration and heating, introduction of aerofoils which significantly improve energy performance, replacement of aged heating systems with more efficient modern systems and the roll out of LED lighting. During the pandemic this slowed initially due to social distancing requirements and restrictions and then was impacted by supply and labour issues, however, significant investment has continued.

In 2021, the plan for these roll-outs and other carbon saving initiatives were reviewed with new deliverables established to ensure that existing deadlines for change will be achieved with the associated carbon reductions available for monitoring.

Energy procurement and offsetting

The Society procures 100% Renewable Energy Guarantees of Origin (REGO) backed electricity from named sources. The electricity is also assessed for sustainability and comes from wind and solar power, avoiding biomass based renewables.

Modern Slavery statement for financial year 2021-22

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. This policy was revised and reissued during the year.
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

31 March 2022

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 ("the Society) for the year ended 29 January 2022 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 cash flow statement and related notes, including the accounting policies on pages 31 to 35.

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 29 January 2022 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").

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.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the group's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the Group will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors and internal audit as to the Group's high-level policies and procedures to prevent and detect fraud and the Group's channel for whistleblowing, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Audit Committee minutes.
- Using analytical procedures such as ratio and trend analysis to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries. We rebutted the fraud risk related to revenue recognition because we found there are limited incentives, rationalisations and/or opportunities to fraudulently adjust revenue recognition. We did not identify any additional fraud risks.

In determining our audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of relevant Group-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual account combinations.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors (as required by auditing standards), and discussed with the Directors the policies and procedures regarding compliance with laws and regulations.

We remained alert to any indications of non-compliance of identified laws and regulations throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements, including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, data protection laws and employment law recognising the nature of the Group's activities.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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 we do not express an audit opinion 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.

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

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

- 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 explained more fully in their statement set out on page 18, 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.

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. 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 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.

Deborah Ramsay
Senior Statutory Auditor

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Saltire Court, 20 Castle Terrace
Edinburgh

EH1 2EG

5 April 2022

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 29 January 2022.

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 period to 29 January 2022 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 £112.7 million and net current liabilities of £2.3 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 £39.25m which is subject to gearing, earnings and capital spend related financial covenants and available until 2025. At 29 January 2022 the Group had cash balances of £12.3 million and had utilised £29 million (2021: £35 million) of its revolving credit facility. After strong cash generation during the year the Group reduced its utilisation of the revolving credit facility which was the main reason for a switch to a net current liability position at the year end.

The global Covid-19 pandemic impact on businesses had reduced since the peak of the crisis. The UK is moving into the "living with Covid" stage but it is still possible that there could be some unpredictable variation in the value and timing of cash flows as a result of the pandemic. The Ukraine crisis is also expected to lead to volatility in prices of commodities and cash flows.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements taking into account the experience over the last couple of years. In the first lockdown period there was an increase in local food shopping and the closure of Semichem stores. So downside sensitivities reflect Scotmid stores continuing to remain open regardless, but a significant contraction in Semichem business if lockdown conditions return. Even in these downside scenarios the Group is forecast to be able to operate within its existing facilities and meet its banking covenants over the going concern assessment period. The net current liability at year end is not viewed as significant with additional funding of over £10.7m available.

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 31 March 2022. 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 18.

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 29 January 2022 (2020/21 - 53 weeks to 30 January 2021).

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 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. Following regulation by the Financial Conduct Authority which will enter law In July 2022, funeral bonds will be novated to a third party and will not therefore be expected to be reported as investments or liabilities within the Society balance sheet next year.

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, with store stock calculated using retail price less margin. 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.

Grants

During the year, Coronavirus Job Retention Scheme ("JRS") income has been received, accounted for under the accruals model and classified as grants related to revenue. Grant income is disclosed under Note 4 of these financial statements.

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 overriders 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 £13,446,000.

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 29 January 2022

	notes	2021-22 (52 weeks) total £000	2020-21 (53 weeks) total £000
turnover	1	403,276	409,084
cost of sales		(298,995)	(304,091)
gross profit		104,281	104,993
other income	2	4,354	4,256
net expenses	3	(102,927)	(102,833)
trading profit		5,708	6,416
exceptional items	5	(1,555)	(2,016)
investment property revaluation	10	2,900	481
profit/(loss) on disposal of fixed assets		386	(258)
operating profit		7,439	4,623
net finance charges	6	(301)	(1,141)
surplus before distributions		7,138	3,482
distributions			
share interest		(54)	(66)
grants and donations	7	(554)	(580)
surplus before taxation		6,530	2,836
taxation	8	(2,295)	(1,497)
surplus for the financial year		4,235	1,339

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

The notes on pages 41 to 55 form an integral part of these financial statements.

Group Statement of Comprehensive Income for the year ended 29 January 2022

	notes	2021-22 (52 weeks) total £000	2020-21 (53 weeks) total £000
surplus for the financial year		4,235	1,339
actuarial gains/(losses) on defined benefit pension scheme	18	6,585	(4,601)
tax relating to components of other comprehensive income	8	(970)	977
other comprehensive gain/(loss) for the period		5,615	(3,624)
total comprehensive income for the period		9,850	(2,285)

The notes on pages 41 to 55 form an integral part of these financial statements.

Group Balance Sheet as at 29 January 2022

	notes	£000	2021-22 £000	£000	2020-21 £000
fixed assets					
intangible assets	9		13,446		15,302
tangible assets	10		50,156		47,044
investment properties	10		100,022		95,847
investments	11		17,374		16,117
			180,998		174,310
current assets					
stocks - goods for resale		24,300		27,097	
debtors and prepayments	12	8,919		12,399	
cash at bank and in hand		12,296		11,198	
		45,515		50,694	
current liabilities					
amounts falling due within one year					
creditors	13	(47,842)		(45,380)	
net current (liabilities)/assets			(2,327)		5,314
total assets less current liabilities			178,671		179,624
long term liabilities					
amounts falling due after more than one year					
creditors	14		(43,153)		(49,189)
provisions for liabilities					
deferred taxation	8		(3,050)		(480)
other provisions	15		(2,138)		(2,343)
net assets excluding pension liability			130,330		127,612
pension liability	18		(17,608)		(24,759)
net assets			112,722		102,853
financed by					
share capital	17		6,200		6,181
non-distributable reserve			41,231		38,450
revenue reserve			65,291		58,222
shareholders' funds			112,722		102,853

The notes on pages 41 to 55 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 31 March 2022. They were signed on its behalf by:

Harry Cairney **President**
David Paterson **Director**
John Dalley **Secretary**

Group Statement of Changes In Shareholders Funds for the year ended 29 January 2022

	notes	share capital £000	non-distributable reserve £000	revenue reserve £000	total £000
at 30 January 2021		6,181	38,450	58,222	102,853
surplus for the financial year		-	-	4,235	4,235
transfer of realised revaluation on disposal of properties		-	(119)	119	-
actuarial gains on defined benefit pension scheme	18	-	-	6,585	6,585
tax relating to items of other comprehensive income		-	-	(970)	(970)
total comprehensive income		-	(119)	9,969	9,850
withdrawal of share capital	17	(35)	-	-	(35)
expenses of members capital	17	54	-	-	54
reclassification of revaluation of investment properties		-	2,900	(2,900)	-
at 29 January 2022		6,200	41,231	65,291	112,722

The notes on pages 41 to 55 form an integral part of these financial statements.

Group Cash Flow Statement for the year ended 29 January 2022

	notes	2021-22 (52 weeks) £000	2020-21 (53 weeks) £000
net cash flows from operating activities	19	20,272	10,845
cash flows from investing activities			
net proceeds from sale of equipment		54	11
net proceeds from sale of investment properties		748	1,040
purchase of investment		(350)	(80)
purchase of investment properties	10	(1,393)	(2,284)
purchase of equipment	10	(11,408)	(7,149)
interest received	6	567	54
interest paid	6	(21)	(168)
net cash flows from investing activities		(11,803)	(8,576)
cash flows from financing activities			
share interest, grants and donations		(608)	(646)
repayments of borrowings	21	(6,000)	(2,000)
repayments of obligation under finance lease	21	(321)	(552)
proceeds on issue of shares		19	61
interest paid		(461)	(656)
net cash flows from financing activities		(7,371)	(3,793)
net increase/(decrease) in cash and cash equivalents		1,098	(1,524)
cash and cash equivalents at beginning of year		11,198	12,722
cash and cash equivalents at end of year	21	12,296	11,198
reconciliation to cash at bank and in hand			
cash at bank and in hand at end of year		12,296	11,198

The notes on pages 41 to 55 form an integral part of these financial statements.

1. turnover class of business	2021-22 (52 weeks) £000	2020-21 (53 weeks) £000
retail / wholesale	396,765	402,761
property	6,511	6,323
turnover	403,276	409,084

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.

3. net expenses	2021-22 (52 weeks) £000	2020-21 (53 weeks) £000
personnel costs	61,328	59,976
occupancy costs (excluding depreciation)	12,909	14,216
depreciation of owned assets	7,587	7,097
depreciation of assets held under finance leases	412	548
amortisation of goodwill	1,856	1,891
operating lease rentals - equipment and vehicles	547	552
fees - directors and committee members	336	199
expenses and delegations - directors and committee members	15	14
auditors' remuneration for group accounts	82	82
auditors' remuneration for subsidiary accounts	28	23
other expenses	17,827	18,235
	102,927	102,833

Included within occupancy costs and other expenses is £4,689,000 relating to operating lease rentals for land and buildings (2020-21 - £5,055,000).

4. employees	2021-22 total number	2020-21 total number
the average number employed was:		
full time	1,147	1,151
part time	2,801	2,796
	3,948	3,947
the costs incurred in respect of these employees were		
	£000	£000
wages and salaries	56,017	54,929
social security costs	3,332	3,304
other pension costs	1,979	1,743
	61,328	59,976

During the year the Society received Government assistance from the Job Retention Scheme of £756,000 but repaid £113,000. The net assistance received related to Semichem which was impacted by Covid restrictions in the year.

4. employees - continued	2021-22 (52 weeks)	2020-21 (53 weeks)
directors' emoluments	**£000**	**£000**
the total remuneration of the directors for their board and committee duties was		
fees and delegations	133	130

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

	number	number
£1 - £2,500	-	1
£5,001 - £7,500	-	2
£7,501 - £10,000	7	5
£10,001 - £12,500	3	3
£12,501 - £15,000	1	1
£20,001 - £22,500	-	1
£22,501 - £25,000	1	-
	12	13

management executive emoluments	£000	£000
the total remuneration of the management executive was		
wages & salaries	1,707	1,419
taxable benefits	54	54
pension and pension allowance costs	221	190
	1,982	1,663

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

	number	number
£20,001 - £30,000	1	1
£50,001 - £60,000	-	1
£120,001 - £130,000	1	-
£130,001 - £140,000	1	-
£140,001 - £150,000	1	1
£150,001 - £160,000	1	2
£190,001 - £200,000	1	-
£260,001 - £270,000	-	1
£270,001 - £280,000	1	-
£610,001 - £620,000	-	1
£640,001 - £650,000	1	-
	8	7

5. exceptional items

	2021-22 (52 weeks) £000	2020-21 (53 weeks) £000
business integration, disruption and rationalisation costs	1,555	2,016
	1,555	2,016

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

6. net finance charges

	2021-22 (52 weeks) £000	2020-21 (53 weeks) £000
interest payable		
funeral bond interest	576	837
bank overdraft and loan interest	451	634
finance leases	10	22
other interest	21	7
movement in fair value of derivatives	-	161
interest cost on pension scheme liabilities	1,633	1,779
total interest payable	2,691	3,440
less - interest receivable and investment income		
expected return on pension scheme assets	1,247	1,408
unlisted investments	53	53
other interest	12	1
funeral bond interest	576	837
movement in fair value of derivatives	502	-
total interest receivable	2,390	2,299
total	301	1,141

7. grants and donations

	2021-22 (52 weeks) £000	2020-21 (53 weeks) £000
member relation activities & grants	539	528
donations	15	52
	554	580

8. taxation

8a. profit and loss account and other comprehensive income

	2021-22 (52 weeks) £000	2020-21 (53 weeks) £000
current taxation		
UK corporation tax charge for the year	909	498
adjustment in respect of prior years	(214)	(153)
total current taxation	695	345
deferred taxation		
origination and reversal of timing differences	672	802
adjustment in respect of prior years	(150)	130
adjustment due to change of tax rate	1,078	220
total deferred taxation	1,600	1,152
total profit and loss account taxation charge	2,295	1,497
other comprehensive income items		
deferred tax in current year	970	(977)

8b. taxation reconciliation

The tax in the profit and loss account for the year is higher (2020-21 higher) from the standard rate of corporation tax in the UK. The difference is explained below.

	2021-22 (52 weeks) £000	2020-21 (53 weeks) £000
surplus before tax	6,530	2,836
tax on surplus at standard rate of corporation tax in the UK of 19%		
(2020-21: 19%)	1,241	539
factors affecting current tax charge for the year		
expenses not deductible for tax	131	32
net depreciation and capital allowances	(95)	(36)
income not taxable	(418)	(36)
effects of group relief/other relief	-	(1)
gains/rollover relief	50	-
adjustment to tax in respect of prior years	(214)	(153)
current tax in year	695	345
factors affecting deferred tax charge for the year		
expenses not deductible for tax	105	270
adjustment from prior periods	(150)	130
effects of tax rate changes	1,078	220
movement in unrealised gains on investment properties	567	532
deferred tax movement in year	1,600	1,152
tax charge for the year	2,295	1,497

8b. taxation reconciliation - continued

current tax

In preparing the current tax figure a number of adjustments are required to the profit before tax figure to capture appropriate allowable and disallowable income and expenses. Items include but are not limited to; property sales; legal and professional costs; depreciation; intangible fixed asset write down and capital allowances.

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, frozen from January 2018, is an allowance for inflation of capital gains. 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

Finance Act 2016 had previously enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020 and accordingly the deferred tax at 31 January 2020 had been calculated at this rate. However, in the March 2020 Budget it was announced that the reduction would not occur and the corporation tax rate would be held at 19%. This reversal to the 19% corporation tax rate was substantively enacted on 17 March 2020 and was reflected within the accounts for the period ended 31 January 2021.

Subsequent to the above, the UK government announced in March 2021 that the UK corporation tax rate will increase from 19% to 25% from 1 April 2023.

Deferred tax should be measured at the average 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. The tax disclosures have been prepared on the assumption that the deferred tax balances will unwind at the subtantively enacted rate of 25%.

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 includes a calculation on the pension deficit in the scheme recognised in the Society accounts and the element of Asset Backed Funding (ABF) contribution not yet tax deductible. The deficit recognised by the Society of £10,490,000 (2020-21 - £17,124,000) is lower due to the different accounting treatment of the ABF arrangement in the Society and these group accounts and will unwind in 2032 when the arrangement ends.

The taxation charge in the other comprehensive income is the deferred taxation (at a rate of 25%) 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.

8c. deferred taxation	2021-22 £000	2020-21 £000
deferred tax		
provision at beginning of year	(480)	(306)
adjustment in respect of prior years	150	(130)
deferred tax charge to income statement in the period	(1,750)	(1,021)
deferred tax charge to other comprehensive income statement in the period	(970)	977
deferred tax provision at the end of the year	(3,050)	(480)
deferred tax assets/(liabilities)		
fixed asset timing differences	(7,161)	(4,694)
short term timing differences	3,171	3,623
losses	940	591
deferred tax provision at the end of the year	(3,050)	(480)

The fixed asset timing difference liability mainly relates to investment property revaluation and would only materialise upon property sale. The short term timing difference asset mainly relates to the defined benefit pension scheme as mentioned above.

Within fixed asset timing differences there is a deferred tax liability of £7,317,000 (2020-21 - £4,858,000).

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.

	2021-22 £000	2020-21 £000
deferred tax assets		
recoverable within 12 months	28	59
recoverable after 12 months	4,239	4,319
deferred tax assets	4,267	4,378
deferred tax liabilities		
payable within 12 months	-	(8)
payable after 12 months	(7,317)	(4,850)
deferred tax liabilities	(7,317)	(4,858)

9. intangible assets

goodwill	cost £000	amortisation £000	balance sheet value £000
at the beginning of the year	52,813	(37,511)	15,302
amortisation provided for the year	-	(1,856)	(1,856)
at the end of the year	52,813	(39,367)	13,446

10. tangible fixed assets

	land & buildings £000	investment properties £000	plant vehicles & fixtures £000	total £000
cost or valuation				
30 January 2021	31,339	95,847	130,867	258,053
additions	-	1,393	11,408	12,801
disposals	(301)	(150)	(2,600)	(3,051)
reclassification	(106)	32	-	(74)
revaluation	-	2,900	-	2,900
29 January 2022	30,932	100,022	139,675	270,629
depreciation				
30 January 2021	15,482	-	99,680	115,162
provided for the year	741	-	7,258	7,999
disposals	(82)	-	(2,554)	(2,636)
reclassification	(74)	-	-	(74)
29 January 2022	16,067	-	104,384	120,451
balance sheet value at 30 January 2021	15,857	95,847	31,187	142,891
balance sheet value at 29 January 2022	14,865	100,022	35,291	150,178

The net book value of the group's fixed assets includes £850,000 (2020-21 - £1,262,000) 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. At the year-end the Society was committed to the purchase of a block of flats as investment property.

Investment properties were independently valued by Chartered Surveyors D M Hall LLP and Sanderson Weatherall LLP as at 29 January 2022 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 £17,906,000 (2020-21 - £17,200,000) 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.

Subsequent to the year end, the Society finalised missives for the sale of a package of freehold property and the purchase of a freehold commercial unit.

11. investments

	long term 2021-22 £000	current 2021-22 £000	total 2021-22 £000	long term 2020-21 £000	current 2020-21 £000	total 2020-21 £000
funeral bond investment	15,339	-	15,339	14,441	-	14,441
unlisted investments						
Co-operative Group shares	1,341	-	1,341	1,341	-	1,341
other C & CB Societies	2	-	2	2	-	2
others	702	-	702	343	-	343
joint ventures	(16)	-	(16)	(16)	-	(16)
	2,029	-	2,029	1,670	-	1,670
listed investments						
others	6	-	6	6	-	6
	17,374	-	17,374	16,117	-	16,117

	funeral bond investments £000	unlisted investments £000	listed investments £000	total £000
cost or valuation				
balance sheet value at 30 January 2021	14,441	1,670	6	16,117
additions	1,502	359	-	1,861
disposals	(1,180)	-	-	(1,180)
interest gain	576	-	-	576
balance sheet value at 29 January 2022	15,339	2,029	6	17,374

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 29 January 2022 was £32,000 (2020-21 - £30,000) and therefore the fair value would add £27,000 (2020-21 - £25,000) 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 shareholdings in The Start-Up Drinks Lab Limited (a drink manufacturer, registered address Unit 4, Block D, Kelburn Business Park, Port Glasgow), The Alcoholic Water Company Limited (a drink manufacturer, registered address Unit 5, Block D, Kelburn Business Park, Port Glasgow), 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 sheet of the company is shown below.

11. investments - continued

	Scotmid - Miller (Great Junction Street) 2021-22 £000	2020-21 £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.

12. debtors and prepayments due within one year	2021-22 £000	2020-21 £000
trade debtors	685	987
prepayments and other debtors	8,234	11,364
corporation tax recoverable	-	48
	8,919	12,399

13. creditors falling due within one year	2021-22 £000	2020-21 £000
trade creditors	20,019	19,386
holiday pay	535	565
VAT	861	2,671
funeral bond deferred income	1,219	1,168
other sundry creditors	6,033	3,074
accrued charges	17,153	17,384
PAYE and social security	1,530	811
obligations under finance leases (see note 14)	218	321
corporation tax payable	274	-
	47,842	45,380

14. creditors falling due after more than one year	2021-22 £000	2020-21 £000
bank loans	29,000	35,000
obligations under finance leases	-	218
funeral bond deferred income	14,153	13,971
	43,153	49,189
borrowings are repayable as follows:		
bank loans		
between one and two years	750	750
between two and five years	28,250	34,250
	29,000	35,000
finance leases		
between one and two years	-	218
on demand or within one year	218	321
	218	539
funeral bond deferred income		
between one and two years	1,219	1,168
between two and five years	3,657	3,504
after five years	9,277	9,299
	14,153	13,971
on demand or within one year	1,219	1,168
	15,372	15,139
total bank loans, deferred income, and finance leases excluding bank overdraft		
between one and two years	1,969	2,136
between two and five years	31,907	37,754
after five years	9,277	9,299
	43,153	49,189
on demand or within one year	1,437	1,489
	44,590	50,678

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. During the year the Financial Conduct Authority (FCA) published rules regarding the regulation of funeral plans which comes into law from July 2022. To remain compliant the Society is in negotiation to become an appointed representative of Ecclesiastical Planning Services Limited who will manage future plans along with taking over the existing back-book of plans. Following novation, balances relating to funeral plans will not show as investments or liabilities on the Society balance sheet.

HSBC were appointed in March 2019 with funding covering 5 years with an option to extend for 2 further years. The facility includes a £39,250,000 Revolving Credit Facility and a £4,000,000 Overdraft. The first extension was granted by HSBC in March 2020 and we are in discussions with HSBC regarding the further year extension. At year end a loan balance of £29,000,000 (2020-21: £35,000,000) existed. Gross borrowing to net assets, Minimum EBITDA, and Capital Expenditure are covenants associated with the facility. Interest rate has transitioned from LIBOR to SONIA during the year with a margin of 1.05%.

15. provisions

	£000
30 January 2021	(2,343)
additions	(282)
utilised	487
29 January 2022	(2,138)

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

16. derivatives

	2021-22 £000	2020-21 £000
derivative financial instruments held to manage interest rates		
interest rate derivatives (at fair value)	313	(189)

The Society's interest rate derivatives with a value of £18,000,000 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 2025.

17. share capital

	2021-22 £000	2020-21 £000
at beginning of year	6,181	6,120
interest	54	66
	6,235	6,186
contributions	83	80
	6,318	6,266
withdrawals	(118)	(85)
at end of year	6,200	6,181

(i) share capital comprises 6,200,000 shares (2020-21 - 6,181,000) of £1 attracting interest at 1% (2020-21 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 25 January 2020. The actuarial valuation method used was the projected unit method. Additional annual contributions of £312,500 until 2026, reducing to £302,000 until 2032, in addition to the £969,000 asset backed funding arrangement through to 2032, have been agreed between the Society and the Pension Trustees.

the major assumptions used by the actuary were			at 29 January 2022	at 30 January 2021
rate of increases in pensions accrued post 05/04/97		LPI 5% (RPI)	3.40%	2.90%
		LPI 2.5% (RPI)	2.20%	2.00%
rate of increase in deferred pensions		LPI 2.5% (RPI)	2.50%	2.50%
rate of increase in deferred pensions		LPI 2.5% (CPI)	2.50%	2.40%
discount rate			2.10%	1.60%
inflation assumption			3.60%	3.00%
life expectancy retiring today	male		86.1 years	86.1 years
	female		88.0 years	88.0 years
life expectancy in 20 years	male		87.6 years	87.6 years
	female		89.6 years	89.5 years

Investigations have been carried out within the past year 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.

The actuary has proposed that RPI inflation continues to be set in line with market break-even expectations less an inflation risk premium. The inflation risk premium has been set at 0.2% (2020-21: 0.2%) and the actuary has estimated, for illustration purposes,that the impact of a reduction in RPI of 0.1% p.a. when setting the RPI assumptions would be expected to be around a 1% (@ £1m) increase in the defined benefit obligation.

For CPI, the actuary has proposed keeping the long term gap between RPI and CPI at 0.6%. The actuary has estimated, for illustration purposes, that the impact of a reduction of 0.1% p.a. in the best estimate RPI-CPI wedge applied when setting the CPI assumption would be expected to be less than a 1% (@ £1m) increase in the defined benefit obligation.

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

	2021-22 £000	2020-21 £000
current service cost	1,490	1,290
net interest cost	386	371
	1,876	1,661

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

	at 29 January 2022	at 30 January 2021
present value of defined benefit obligations	(98,885)	(102,970)
fair value of scheme assets	81,277	78,211
deficit	(17,608)	(24,759)
net liability recognised in the balance sheet	(17,608)	(24,759)

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, were ceased in the year with a balance of £53,000 (2020-21 £53,000) surplus remaining. Work is currently being undertaken to close this pension plan.

18. accounting for pension costs - continued	2021-22	2020-21
analysis of the movement in the scheme deficit in the year	**£000**	**£000**
opening deficit in the scheme	(24,812)	(21,888)
current service cost	(1,490)	(1,290)
contributions	2,442	3,338
net financing charge	(386)	(371)
actuarial gain/(loss)	6,585	(4,601)
closing scheme deficit	(17,661)	(24,812)
Seaton Valley & Allendale Society pension surplus	53	53
total deficit	(17,608)	(24,759)

reconciliation of present value of scheme liabilities	£000	£000
opening defined benefit obligation	102,970	100,494
service cost	1,490	1,290
interest cost	1,633	1,779
contributions by employees	707	736
actuarial (gain)/loss	(4,605)	1,767
benefits paid	(3,310)	(3,075)
contribution towards Seaton Valley pension fund	-	(21)
closing defined benefit obligation	98,885	102,970

reconciliation of present value of scheme assets	£000	£000
opening fair value of the scheme assets	78,211	78,638
expected return	1,247	1,408
actuarial gain/(loss)	1,980	(2,834)
contributions by employer	2,442	3,338
contributions by employees	707	736
benefits paid	(3,310)	(3,075)
closing fair value of the scheme assets	81,277	78,211

analysis of the fair value of scheme assets at the balance sheet date was as follows	£000	£000
equities	38,739	36,135
other	3,353	1,112
asset backed funding arrangement contribution	969	969
buy-in	16,093	17,619
liability driven investment	22,123	22,376
total market value of assets	81,277	78,211

In setting the expected return on the assets as at 29 January 2022, 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.

18. accounting for pension costs - continued

amounts taken to the consolidated statement of comprehensive income	2021-22 £000	2020-21 £000
actual return less expected return on pension scheme assets	1,980	(2,834)
experience (losses)/gains arising on the scheme liabilities	(518)	4,788
changes in assumptions underlying the value of scheme liabilities	5,123	(6,555)
actuarial gain/(loss) before tax adjustments	6,585	(4,601)

19. cash flow statement : reconciliation of surplus for the year on ordinary activities to net cash inflow from operating activities	2021-22 £000	2020-21 £000
operating profit	7,439	4,623
adjustment for		
gain on investment properties	(2,900)	(481)
(profit)/loss on disposal of fixed assets	(386)	258
depreciation charges	7,999	7,645
amortisation of goodwill	1,856	1,891
decrease/(increase) in stocks	2,797	(1,829)
decrease/(increase) in debtors	3,432	(809)
increase in creditors and other provisions	1,370	2,531
movement in pension liability	(952)	(2,069)
share of subsidiary profit	(10)	-
corporation tax paid	(373)	(915)
net cash inflow from operating activities	20,272	10,845

20. cash flow statement: reconciliation of net cash flow to movement in net debt	2021-22 £000	2020-21 £000
increase/(decrease) in cash for year	1,098	(1,524)
cash outflow from change in net debt and lease financing	6,321	2,552
movement in net debt for the year	7,419	1,028
opening net debt	(24,341)	(25,369)
closing net debt	(16,922)	(24,341)

21. cash flow statement: analysis of net debt	at 30 January 2021 £000	cashflow £000	other non-cash changes £000	at 29 January 2022 £000
cash at bank and in hand	11,198	1,098	-	12,296
debt due after 1 year	(35,000)	-	6,000	(29,000)
debt due within 1 year	-	6,000	(6,000)	-
finance leases repaid	(539)	321	-	(218)
	(35,539)	6,321	-	(29,218)
total	(24,341)	7,419	-	(16,922)

22. operating lease commitments	land & buildings	plant, vehicles & fixtures	land & buildings	plant, vehicles & fixtures
	2021-22 £000	2021-22 £000	2020-21 £000	2020-21 £000
leases which expire				
within one year	1,108	27	990	41
within two to five years	6,377	759	6,373	880
after five years	11,351	-	12,360	-
	18,836	786	19,723	921

At 29 January 2022 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)	15	(C) 4			(C) 5
Mr J Watson (VP) ★	15	4		(C) 2	
Mr A Clark Hutchison ★	12		3		
Mrs S Downie	15	4		1	1
Mr I Gilchrist	15				5
Ms K Harmon ★	13				5
Mr K Kelly (E 26/4/21)	10				4
Dr R McCready	15			2	
Mr D Paterson ★	15		3		
Mr M Ross	14		3		
Mr A Simm	15	4		2	
Mr E Thorn ★	15		(C) 3		
Total meetings held	15	4	3	2	5

Meetings held from 30 January 2021 to 29 January 2022

P President | VP Vice President | C Committee Chair | E Elected | R Retired

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

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, The Start Up Drinks Lab Limited and the Alcoholic Water Company.

East Regional Committee	
Mr H Cairney (C)	8
Mr D Paterson (VC) ★ ♦	9
Mr E Thorn (MS) ★ ♦	9
Mr A Clark Hutchison ★ ♦	9
Mr C Henderson ★	7
Mrs N Hill	8
Mrs L Hinds	9
Mr K Kelly	8
Mr J MacKenzie ♦	9
Mrs R McCabe ★	9
Mr B Pottinger (R 2/12/21)	6
Mrs J Reid	9
Mr B Weddell (E 26/4/21)	8
Total meetings held	9

West Regional Committee	
Mr A Simm (C)	8
Mr J Watson (VC) ★ ♦	7
Mr M Ross (MS)	7
Mr S Ballantyne	8
Mr S Curran	7
Mr I Gilchrist	7
Ms K Harmon ★ ♦	8
Mrs M Kane	6
Mr J Mills	5
Ms M Nolan ♦	7
Mr G Randell	7
Mrs K Scott	6
Mr C Sim (E 26/4/21) ♦	5
Ms R Smith ‡	3
Total meetings held	8

North Regional Committee	
Mrs S Downie (C)	8
Dr R McCready (VC from 10/5/21)	7
Mrs S McSorley (MS) ♦	7
Mr A Cullen* (R 15/4/21)	2
Mrs E Farquhar	8
Mrs J Garnes	6
Mr A Hutchison	6
Mr D Patterson	6
Ms E Pipe ♦	8
Mrs M Smith	7
Mr A Stokes ♦	7
Mrs D Taylor	6
Total meetings held	8

Meetings held from 30 January 2021 to 29 January 2022
C Committee Chair | VC Vice Committee Chair | MS Minute Secretary | E Elected | R Retired/Resigned

★ Regional Committee Members who have been nominated by their Regional Committee to stand for election to the Board and are eligible for election.

♦ Regional Committee Members whose terms of office will complete in at AGM 2022 and have been nominated to serve a further term of office.

* Aaron Cullen resigned from the North Regional Committee on 15 April 2021 with the thanks of the Board for his service to the Society.

‡ Rebecca Smith has indicated that she will not seek re-election and will retire from the West Regional Committee at AGM 2022 with the thanks of the Board for her service to the Society.

The 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.

Scotmid coop