

SCOTTISH MIDLAND CO-OPERATIVE SOCIETY LIMITED

ANNUAL REPORT

& Financial Accounts
for year ended 27 January 2024



Turnover
£425m

Trading profit
£4.3m

Net assets
£121m



Scotmid 

OUR CORE PURPOSE:

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

Winter Giving campaign
donated to localised
foodbanks, community
pantries and hubs.

£295k raised for our
charity of the year
partners.

Community Connect
Scheme awarded £168k
shared between 24
good cause groups.

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Advisors and Registered Office

Independent Auditor

Anderson Anderson & Brown Audit 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



Jim Watson
President



Andrew
Clark Hutchison



Sheila Downie



Iain Gilchrist



Kaye Harmon



Eddie Thorn
Vice President



Keith Kelly



Richard McCready



David Paterson



Michael Ross



Andy Simm



Brian Weddell

For Board and
Committee attendance
see pages 56-57

Management Executive



John Brodie
Chief Executive Officer



Karen Scott
Chief Operating Officer
Retail



Craig Strachan
Chief Financial Officer



Margaret Anne Clark
Chief Operating Officer
Services

OVERVIEW



The Directors are pleased to present their report for the financial year ended 27 January 2024.

For the 52 weeks ended 27 January 2024, the Society's trading profit was £4.3m, £1.3m better than the previous year. The cost-of-living crisis continued to be a dominating factor in UK retail with consumer confidence down because of soaring energy prices, high inflation and increased interest rates; a policy designed to subdue spending. The ongoing war in Ukraine and other geopolitical issues also continued to put pressure on the wider cost base. Despite these substantial headwinds, the Society pleasingly moved forward year-on-year thanks to a combination of controlling store costs, margin work, good early summer weather and a resilient property performance. Total Society turnover increased by £18.5m to £425m while net assets reduced to £120.8m due to property revaluation and pension movements.

The food convenience division was impacted in the most significant way by cost challenges. Notably, there were significant increases in energy, wage costs, credit card commission and delivery charges. There was also a challenging balance to be struck between price, margin and volume impact. Semichem moved forward modestly despite this being the first year with no Covid rates relief support and absorbing similar increases to food. Property reported a record contribution benefitting from good commercial rent reviews and lower than expected bad debt levels. Funeral numbers flattened out as the year progressed, balancing out excess deaths in Q1, with the division conducting more funerals across the full year.

The Membership and Community team continued to deliver funding in line with the Society's core purpose. Significant donations were made to several national charities and good causes as well as substantial contributions to local food banks via the Winter Giving project. Community Connect awards were also presented at the Society AGMs and OGMs. Society members, colleagues and customers raised the fantastic total of £295k for our 2022/23 charity partner, Guide Dogs. The Society is now supporting the Royal National Lifeboat Institution (RNLI) as charity partner for 2023/24.

The challenging trading environment which has been highlighted previously unfortunately continued into 2023 with many headwinds facing the Society. The cost-of-living crisis, high interest rates and inflation, geopolitical tensions and a recessionary environment at the end of 2023 all contributed to depressed consumer confidence resulting in comparatively low discretionary spend. Inflation in the market started to come down as the year progressed, however, the consumer confidence index remained firmly in negative territory. Despite these challenges, including an increase in energy costs of £3.6m, the Society's trading profit increased in the period. The trading result indicates a resilience and, backed by a strong balance sheet, allows the Society to remain focused on its core purpose of serving our communities and improving people's everyday lives as we move into our 165th year of trading.



FOOD RETAIL

The food retail sector was again posed with numerous challenges throughout 2023/24. External influences were key to these pressures with factors including the cost-of-living crisis, high interest rates and inflation, and geopolitical crises all having a negative effect on consumer confidence and, resultantly, discretionary spend. Despite these obstacles, Scotmid demonstrated resilience and adaptability, implementing strategic initiatives to drive growth, enhance operational efficiency and reduce costs. The first half of the year saw some exceptionally good weather in Scotland which boosted sales. While the weather worsened as the year progressed, the performance in the second half was resilient with customer numbers increasing year-on-year and basket spend remaining robust. Like most grocery retailers, food inflation continued to be

the main driver of sales growth, with overall volumes down year-on-year as consumers managed their budgets.

Inflation and the cost-of-living crisis continued to have an impact on the cost base of the food division. This was particularly evident with a further hike in energy costs as well as a substantial increase in wages. To mitigate some of the impact, focus was placed on initiatives aimed at improving operational efficiency. Savings were realised with the continued use of the Electronic Shelf Edge Label investment and a review of opening hours. Pleasingly, supply chain issues were much improved on the prior year with good availability during key training periods.



Opposite page and top right: The new Heartlands store in Whitburn.

Above left: The solar panels installed at Bo'ness.

Above right: A new trial partnership with Just Eat was launched.

Capital spend in food was reduced due to the Scottish Government's decision to pause the Deposit Return Scheme (DRS), however, investment in the estate continued. One of the highlights was the opening of the new Heartlands store in Whitburn which was fitted out to include a refreshed look and feel, while showcasing core Scotmid offerings. Sustainable refrigeration upgrades continued, including seven Food to Go store refreshes and new hybrid tobacco gantries are now in all stores. Solar panels were also installed at the Bo'ness store, continuing sustainable investment with the benefit of reducing

instore costs. The new range and space system is also nearing the end of the development phase.

The Scotmid digital offering grew with more Snappy Shopper hubs opened as well as a new trial partnership with Just Eat. Local products also continued to be a focus with several Scottish suppliers awarded listings in stores. The food team were delighted to be recognised for their hard work during the year winning awards at the Scottish Grocer Awards and the Sammies. The team continues to address potential legislative impacts including DRS, High Fat, Salt and Sugar, and vaping and tobacco.



"While customer spending appears to have been delayed in 2023, with much of Christmas shopping in the final weeks, this final push allowed the division to finish with festive performance in line with last year."

SEMICHEM



This year continued in a similar vein to prior periods for Semichem with customers having little confidence due to the cost-of-living crisis and market inflation, with footfall down significantly in shopping centres and high streets. Many of the supply chain issues which have been experienced in the aftermath of Brexit and the pandemic have started to recede, however, ongoing geopolitical tensions including the war in Ukraine and disruption to the Red Sea trade routes have resulted in a continually rising cost base. Despite these considerable impediments, Semichem moved forward year-on-year with the buying team continuing to work closely with suppliers, and the wider team maintaining a major focus on price management and key product lines.

As ever, festive trading is key to Semichem's profitability. This was particularly challenging in 2023 due to wetter than usual December weather discouraging customers from venturing to their local stores. The team

continued to focus on Seasonal products and pushed forward with early launch events. While customer spending appears to have been delayed in 2023, with much of Christmas shopping in the final weeks, this final push allowed the division to finish with festive performance in line with last year. This year was also the first year with no legacy Covid support for rates relief with the business delivering a positive result despite these market challenges. Semichem was also successful in fully transitioning to the new warehouse in Livingston with no impact on the business.

Following the purchase of the new warehouse in 2022/23, investment in the Semichem estate was less this year, mainly directed to in-store development and maintenance including new fascias and the move of the Castlemilk store to an adjacent unit. During the year, Paypoint was added to all Semichem stores to provide an additional service to customers and drive store footfall.



FUNERAL



Scotmid Funerals conducted more funerals this year than in 2022/23. With a higher death rate in the first quarter, Scotmid carried out a significant number of funerals over the winter months in early 2023. This trend flattened as the year progressed, but these early funerals meant an overall increase in numbers. The proportion of direct cremation funerals increased year-on-year, likely the result of greater public awareness, substantial advertising spend by online providers and reduced customer budgets due to the cost-of-living crisis.

There were more funeral plans written in 2023/24, showing a demand from customers looking to plan ahead. Scotmid Funerals continues to work with Ecclesiastical Planning Services to offer the best possible and fully regulated service to clients. Together with Ecclesiastical, advertising campaigns have been

published highlighting plans with new adverts played on radio and digital campaigns utilising social media.

Investment in the funeral estate in 2023/24 saw funeral home refurbishments and the purchase of two new vehicles; a Mercedes limousine and hearse. The funeral portacabin was moved from Prestonpans to Uddingston and is now situated in the food store car park where greater footfall is anticipated to boost commercial performance. Investment was also made in electronic labelling, refrigeration and the funeral website.

The Scotmid Funerals team continues to offer the best possible service to their clients while exploring ways to expand, modernise and differentiate the offer.

"The Scotmid Funerals team continues to offer the best possible service to their clients while exploring ways to expand, modernise and differentiate the offer."

PROPERTY



Opposite page: The relocated funeral cabin at Uddingston.

Above: The commercial unit at Bellshill, one of the properties to benefit from a rent review during the year.

Scotmid Property again moved ahead year-on-year with the portfolio benefitting from better than expected commercial rent reviews, and lower than anticipated bad debts and voids. The result comes despite a challenging economic backdrop of sluggish growth, higher interest rates and a technical recession in the second half. These factors have not yet bitten the commercial nor residential market, with demand for both continuing to show signs of strength.

Commercial rental income growth made the most significant contribution to the overall year-on-year property improvement, which was driven by lettings and rent review increases. No commercial acquisitions were concluded during 2023/24, but the sale of two small non-core retail properties were completed. Substantial refurbishments were also completed in Glasgow and Edinburgh commercial units.

Residential rental income also moved ahead against 2022/23, albeit the pace of market rent increases continued to be impacted by the temporary rent control legislation introduced by the Scottish Government in September 2022. Residential voids remained low throughout the year with demand outstripping supply in the private rented sector. A flat in Edinburgh was purchased in an existing tenement stair where most flats were already owned by the Society. The sale of a non-core vacant flat in Montrose was also completed.

As anticipated, given economic conditions, the capital value of the Society's property portfolio at the year-end reduced by £1.4m. This was driven predominantly by downward movement in commercial values while residential values, which were expected to reduce due to the cost-of-living crisis, remained largely flat against the previous year.

SOCIETY MATTERS & CENTRAL SUPPORT



At the year end, the Society's surplus before tax was £0.11m compared to £1.76m in 2022/23. While trading profit increased by £1.3m, this was not enough to offset additional interest charges of £1.4m and the downward movement in property revaluation; which reversed from an increase in value by £0.75m in 2022/23 to a reduction in value by £1.4m driven by largely uncontrollable market conditions. Long-term interest rate expectations and general investment market performance resulted in an increase in the pension deficit by £923k. Taxation in the year shows a credit to the Profit and Loss Account of £8k, mainly due to a capital allowances exercise undertaken. Overall, after tax, the Society's net assets reduced by £1.7m to £120.8m, due to property revaluation and pension movements. Society net debt reduced by £3.7m to £22.2m in the year due to lesser capital spend and a tight cash flow management strategy given higher cost of capital.

Scotmid continues to hold complementary diversification investments in The Start-Up Drinks Lab (SUDL), Product Guru (PG) and the Alcoholic Water Company (AWC). SUDL recruited a new Managing Director to embed their drinks innovation mission and continued the transition to focus on 'Drinkubation' consultancy. The business has faced similar cost challenges to most, with soaring energy, staff costs and repairs. PG has continued to

facilitate digital and in-person events to help retailers discover new brands for their stores. In 2023, PG doubled its turnover and facilitated over 5,300 meetings between retailers and brands. AWC continues its period of hibernation and has invested excess cash on hand in an interest-bearing account while the hard seltzer market matures in the UK.

The restructured Head Office departments continued to embed the new operating model. Earlier in the year the People & Performance Team played a key role in supporting the restructure and all areas focused on streamlining tasks, ensuring the ongoing provision of a prompt and efficient service. The team also supported the phase one launch of myScotmid, the Society's new self-service people system, enabling direct digital engagement with colleagues. Learning & Development remains a key focus for the Society, and the new system makes training roadmaps available for store roles, gives visibility of eLearning completion and the ability to view and book training. The Wellbeing Team also utilised the myScotmid platform to share key messages, with a focus on financial wellbeing, particularly gambling, while signposting help available. In March, the Wellbeing Team was honoured with a national award for 'Best use of Tech' at the Great British Workplace Wellbeing Series Awards.

Graduates of the 2023 Grow Programme with central support staff at Hillwood House.



The Make it Simple and Change Team implemented an additional 20 change initiatives in Food and Semichem stores, including electronic refusal to sell and updates to the Digital Task Calendar. Phase one of a new membership system went live at the end of the year which will, in time, allow members to interact and update their accounts digitally. The Profit Protection Team continue to support our stores against a notable increase in crime. Proactive measures have been taken to enhance security and reduce losses including trialling body-worn cameras. Alongside solar panel installation, the Sustainability Team has continued to work towards EV charging point installation at some stores and other energy reduction initiatives including fridge doors, LED lighting and voltage optimisation.

Scotmid's President, Jim Watson, will retire from the Society at the AGM in May 2024. Jim was elected from the former Dalziel Coop onto the Society's West Area (now West Regional) Committee in 1986 and onto the

Board in May 2001. He has served for a year as President and 9 years as Vice President. Over his time, Jim has built up many connections across the movement and after nearly 40 years of service we wish him a long and happy retirement from Co-op life.

After over 30 years with the Society and nearly 20 years as Scotmid's Chief Executive, John Brodie will also retire from the Society in August 2024. John has been instrumental in Scotmid's growth, development and success over the last 20 years. He has guided Scotmid through some of the most turbulent times in the Society's history, including the financial crisis in 2008 and the Covid pandemic. His leadership, intellect and strategic thinking have moulded the Society. John will be greatly missed and best wishes from all colleagues are extended. Karen Scott, Chief Operating Officer – Retail, will take over as Chief Executive when John departs.



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

The Society continues to uphold its commitment to community-based funding and support in line with its Core Purpose. The Society's Regional Committees backed a broad range of community organisations with support and community grants awarded to over 1,100 groups and charities during the year. At the AGM in April and OGM in October, hundreds of members came together. Votes from these events and in-store decided where Community Connect funding was awarded with a total of £168,000 granted to winners and shortlisted organisations.

Christmas initiatives included Giving Trees and a new campaign to 'Save a Christmas Jumper' where staff were encouraged to donate their beloved festive jumpers. Social Bite received ingredients for Christmas lunches along with a donation to their winter campaign, while Glasgow City Mission received a donation to provide festive

meals, extending warmth and support throughout the season. Members were provided with complimentary access to various events, including visits to RNLI stations, a Christmas Crafts workshop, as well as remembrance and cooperation band Christmas concerts, fostering a sense of community.



The growing Scotmid Community Orchard project has already led to the establishment of approximately 80 micro-orchards, fostering community engagement, environmental improvement, and wildlife habitats. In collaboration with the Social Enterprise Academy, the Society launched the 'Scotmid Changemaker Fund' to bolster their established Social Enterprise Schools Programme.

The Society proudly supported the publication of 'Stories of Cancer & Hope,' a collection of narratives from individuals impacted by cancer.



Opposite page top: Society Director, Richard McCready with pupils at Kingspark High School in Dundee celebrating the launch of the Society's 'Changemaker Fund' in collaboration with Social Enterprise Academy.

Opposite page inset: The Society launched its new charity partnership with RNLI in August 2023.

Above: The Society concluded its partnership with Guide Dogs with £295,000 raised for the charity.

Other Community and Charitable Activities

The Society again promoted a 'Winter Giving' campaign during the festive period in 2023, focusing on food poverty and supporting warm hubs. £50,000 funding provided through the sale of single use carrier bags was donated to local food banks, community pantries and hubs.

In further support, larger donations were made to several charities, including: Cruse Scotland (Early Support Bereavement Service), the Scottish SPCA (providing 500 Pet Aid boxes), The Cottage Family Centre in Fife, Crisis, RNLI, Fairtrade, Poppy Scotland and St Andrew's First Aid.

£295,000 was proudly raised for Guide Dogs, charity partner for 2022/23, which will support the training of two skilled Guide Dog Mobility Specialists and three talented Habilitation Specialists. Additionally, funds raised marked the beginning of a transformative journey for an entire litter of Scotmid-named puppies. Fundraising by colleagues was

fantastic as always and included in-store collections, Kilt Walks, walking football, a charity golf day and a walk across Edinburgh.

The Society announced the Royal National Lifeboat Institution (RNLI) as its charity partner for 2023/24. Funds raised will purchase a new Atlantic 85 lifeboat, enhancing the RNLI's relief fleet capabilities.

Political Donations

Donations were made to the national Co-operative Party (£15,993) and the Scottish Co-operative Party (£16,200).

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.

Jim Watson
Society President

COMMUNITY CASE STUDIES



SCOTLAND'S CHARITY AIR AMBULANCE

Following a Community Connect award of £15,000 at North AGM 2023, the country's only charity-funded air ambulance service has been able to purchase new mascots to support their fundraising and public engagement at events throughout Scotland.

The three paramedic bears and three helicopters are set to become firm favourites with children and adults alike at hundreds of public appearances throughout the year.

Ross Martin, SCAA's Corporate Partnerships Manager, said the charity owed a "huge debt of gratitude" to the Scotmid members who voted to support the life-saving service.

"Mascot costumes are a vital part of our community engagement work and help us to share the story of our charity with people in communities across Scotland," he said. "This team of six new 'recruits' will be working alongside SCAA volunteer and fundraising teams at

events, shows, fairs and promotions across Scotland and will hopefully become familiar and much-loved characters."

"SCAA relies entirely on the support and generosity of the people and businesses of Scotland to sustain our vital service and we are grateful to Scotmid and its members for their generous support which has allowed us to create our new mascot workforce."

"They might not be the lifesavers that our frontline helicopters, paramedics and pilots are, but they will help raise awareness of the charity and vital funds which will help ensure SCAA is there for those who need us most."

The six new mascots went into immediate service with SCAA, heading off to various parts of Scotland for their debut public appearances. www.scaa.org.uk

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

UPWARD MOBILITY (UPMO)

Following the member vote, Upward Mobility (UPMO) were awarded £15,000 at the East AGM 2023. Their mission is to foster a more inclusive community throughout Edinburgh and the Lothians by providing assistance to adults and young people living with physical or learning disabilities or complex healthcare requirements.

Tailored support services and outdoor learning opportunities are extended to students, centred around Jock Tamson's Gairden in Duddingston. The funds are currently being used to enhance wheelchair accessibility along the pathways and construct additional raised beds, enabling students with mobility challenges to enjoy more of the garden.

www.upmo.org



OLD KILPATRICK FOOD PARCELS

Old Kilpatrick Food Parcels received £15,000 Community Connect funding in Spring 2023. The organisation was formed with the specific aim of alleviating food poverty, in an inclusive and non-discriminatory fashion. The award is being used to fund the rapid increase in demand for their services, such as delivering food aid, funding their Chatty Café initiative, and hosting community groups and events. Such is the demand for their services that they have taken on the challenge of renovating a large semi-derelict building in the village to respond to the expanding needs of the community. www.okfp.org.uk

KESWICK YOUTH CLUB

Nestled at the heart of the community in Keswick, the club offers both junior and senior sessions each week, providing local young people with opportunities to enhance their independence, self-confidence, and form enduring friendships. Additionally, special summer holiday sessions offer a space for young individuals to connect during school breaks. In May 2023, the club received a £2,000 award from Community Connect funding, supporting their ongoing efforts and securing their future activities.

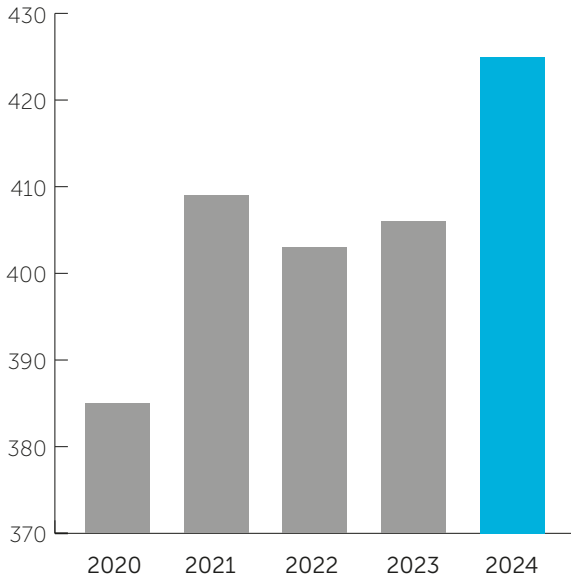
Despite the challenges posed by a previous building flood, the club has persevered with temporary facilities. Thanks to this funding, they've acquired a new town space, enabling them to welcome more young members and establish a robust foundation for further programme development. www.keswickycs.org



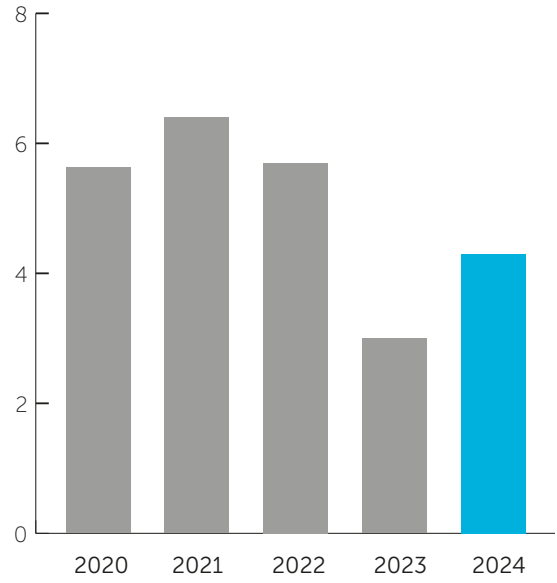
Group Five Year Summary

	2023-24	2022-23	2021-22	2020-21	2019-20
	52 weeks	52 weeks	52 weeks	53 weeks	52 weeks
number of members	159,989	159,391	158,155	156,603	155,997
	£000	£000	£000	£000	£000
turnover	424,938	406,482	403,276	409,084	384,952
trading profit	4,283	3,032	5,708	6,416	5,632
operating profit	2,797	3,006	7,439	4,623	7,632
surplus before taxation	110	1,759	6,530	2,836	5,680
surplus for the financial year	118	1,030	4,235	1,339	4,485
depreciation and amortisation	11,251	10,945	9,855	9,536	9,992
net finance costs	2,075	643	301	1,141	1,280
purchase of fixed assets	7,276	21,874	12,801	9,433	11,548
fixed assets	165,749	171,690	180,998	174,310	174,209
net current assets/(liabilities)	696	(252)	(2,327)	5,314	5,608
total assets less current liabilities	166,445	171,438	178,671	179,624	179,817
less long term liabilities	(31,286)	(35,361)	(43,153)	(49,189)	(50,694)
less provision for liabilities and charges	(8,223)	(8,428)	(5,188)	(2,823)	(2,190)
less pension liability	(6,111)	(5,188)	(17,608)	(24,759)	(21,856)
net assets	120,825	122,461	112,722	102,853	105,077
share capital	6,208	6,223	6,200	6,181	6,120
revenue reserves	73,289	73,287	65,291	58,222	61,249
non-distributable reserve	41,328	42,951	41,231	38,450	37,708
shareholders funds	120,825	122,461	112,722	102,853	105,077

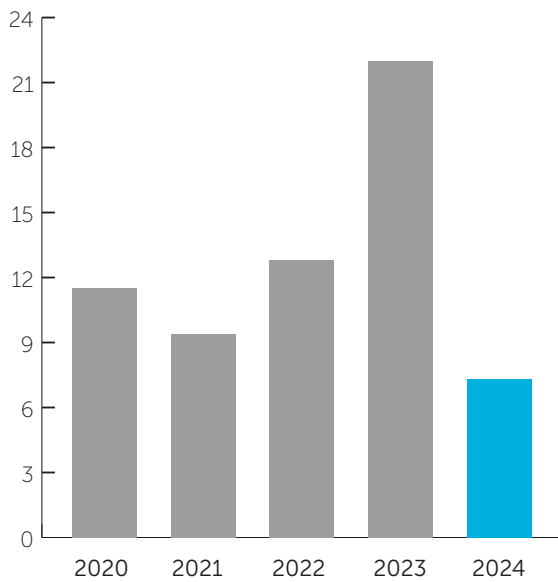
Turnover (£ millions)



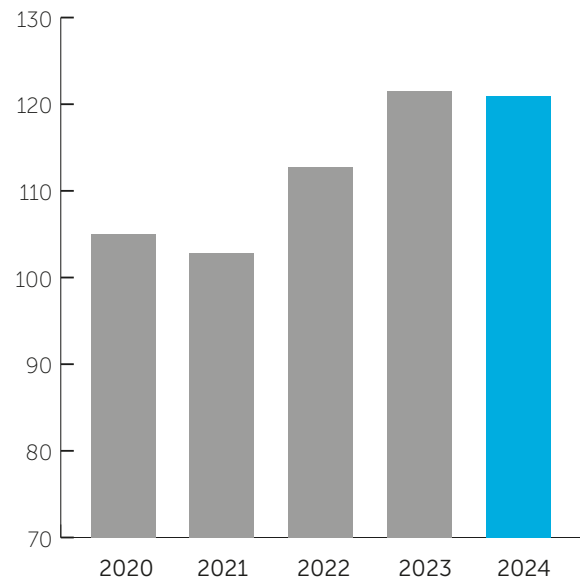
Trading profit (£ millions)



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;
- 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 32.

Governance Report

Co-operative Governance Code

The Society has adopted the Co-operatives UK Co-operative Corporate Governance Code (the "Code"), which is based on the principles contained in the UK Corporate Governance Code. The Code sets out "principles that all Co-ops can reflect upon and use to encourage and enable good governance practice" and operates on a comply or explain basis. The Society substantially complies with the Code but in the limited number of cases where the Society adopts an alternative approach an explanation is provided below. Board Committee Terms of Reference are in-line with the guidance issued by Co-operatives UK and are reviewed when new guidance or updates to the Code are made available.

Set out below are the significant policies, recommended disclosures or alternative Society practices that are relevant to each of the six sections of the Code and 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 held in the Society's three regions to encourage attendance and make meetings more accessible to members. The location of meetings in the north region of the Society, which covers the largest area, rotates from meeting to meeting to maximise members' opportunity to attend. Members registered to attend the regional meetings receive an information pack providing further details of the agenda items by post prior to each meeting. In addition, a video montage of updates on awards given to supported

Community Connect groups and funding donated to local communities throughout the year are made available both before and after the meetings.

2) Co-operative Leadership and Purpose

a) Democratic Governance:

The democratically elected Board sets the Society's strategic objectives, taking into consideration co-operative values and 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 Executive 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 and customers with goods and services and then invests surplus funds back into local communities. 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 and incentives.

c) Long Term Sustainability:

The Board updated the Society's Blueprint & Vision long-term strategy in December 2021. The Blueprint includes 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 for 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 invests in and explores other new opportunities for development.

d) Society Culture:

The Society's Blueprint & Vision includes a long-term strategy for the development of the Society's culture. 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

Governance Report continued

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 to Regional Committees and from there can be nominated to serve as a director on the Board. Both Regional Committee members and directors are elected by members at the Society's AGMs. 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 transitional rules enabled the previous President to serve a maximum of 9 years in the role, instead of 6 years as recommended in the Code. This was approved by members to support the transition to a Balanced Board approach while maintaining our long-term succession plan and was considered beneficial to the Society. The previous President served the maximum

9 years in the role at AGM 2023 and retired at that meeting. Under the Society's Rules the current President, and all future Presidents, will be eligible to serve for a maximum of 6 years in the role, as recommended in the Code.

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 is 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 maximum of three consecutive terms of three years as recommended in the Code. It views the Balanced Board approach as one which enables the Society to retain the skills and knowledge of longer serving directors, while balancing this with the independence of thought and approach provided by newer directors.

b) Member Training:

A comprehensive training programme is offered to all directors 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 directors and Regional Committee members. Each Regional Committee member must undertake specific core

training should they wish to progress onto the Board. During the year in-person training was provided on core topics, as well as bespoke sessions offered on the Wider Co-operative Movement and the Role of the Auditor.

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 Management 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 in each region and advertised in our stores, on our website and by email. Three in-person regional members' meetings were held in both April 2023 and October 2023 at which 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 Regional 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, who are elected by members to represent the members from that region. Uncontested elections were held for Regional Committee places in the North and West Regions and a contested election was held in the East region. 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 members from the former

Seaton Valley Society are part of the East Region. Members from those areas are eligible for nomination and election to serve on the West and East Regional Committees respectively, representing members from the Lakes & Dales area. A Lakes & Dales Panel has also been established and 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 details of the Directors' roles 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 team. 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 and principles set out by the International Co-operative Alliance.

All 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 2022 and the Standing Orders are updated annually.

The day-to-day management of the Society's activities is delegated to the Chief Executive Officer and the Management Executive team

who are responsible for execution of the Society's strategy within the framework laid down by the Board.

Directors are nominated by Regional Committee members and elected by members from the Regions they represent. One Director is employed by the Society and there are no retired or recently retired employees on the Board.

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 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 currently consists of five Directors, and it met three times in 2023-24. The President is not a member of the Audit Committee. Two Committee members are Fellows of the Chartered Banker Institute.

The Society has an Internal Audit Department reporting directly to the Chief Executive Officer. An annual report for 2023-24 has

been produced and the audit plan for 2024-25 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 current terms of reference for the Audit Committee include the following responsibilities:

- Consideration of the appointment of the external auditor and the scope of the audit;
- Review and approve the external auditor's annual plan;
- Review of the financial statements and auditor's management letter;
- Review the findings in the external auditor's report with the external auditor;
- Review of the internal audit programme and internal audit reports;
- Review of the effectiveness of the Society's internal controls and risk management systems;
- Review of the arrangements and procedures for whistleblowing; and
- Report formally to the Board on the Audit Committee's proceedings and make such recommendations to the Board as deemed appropriate.

The Board and Management Executive team 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 and indicate if the level of risk is increasing or reducing. 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.

Remuneration

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

The Committee's role is to ensure that the levels of remuneration and contractual terms of Directors and the Executive Leadership team is appropriate and takes into account the responsibilities held and the size, complexity and risk profile of the Society's trading Divisions.

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

The Remuneration Committee is also responsible for making recommendations to the Board for the level of Directors' and Regional Committee Members' remuneration and expenses. These are agreed by members at the appropriate AGM or OGM. Details of the remuneration of Directors and Management Executive can be found in Note 4 to the financial statements. The salary information in the bandings in Note 4 provides appropriate disclosure of Board and Management Executive remuneration for Scotmid Society although not in the format recommended in Co-operatives UK's best practice.

Search

The Search Committee is responsible for monitoring Board and Regional Committee effectiveness, member training, succession planning (Board, Board committees, CEO & Secretary) and oversight of the Society's membership development and community strategy. The Search Committee consists of four Directors.

The Board agreed that recommendations resulting from the triennial external evaluation conducted by Glasgow Caledonian University in 2021-22 would be implemented over a period of time. In line with those recommendations, the Board skills self-assessment was further developed and implemented. New training sessions were created and delivered during 2023-24 covering Communication, Strategy, the Wider Co-operative Movement, and the Role of the External Auditor, together with core training on Finance. In addition, a number of Board and committee members attended the Co-op Retail Conference and Co-op Congress. The Board is due to undertake an external evaluation in 2024 which will provide an opportunity to review and refresh the process.

The Search Committee continued to focus on developing and progressing the membership strategy and commitment to fostering a vibrant and engaged membership. The Committee also monitors the activities undertaken by the Membership and Community Team to achieve the strategy, modernise the membership offering and promote membership engagement.

The Search Committee is responsible for monitoring the balance of the board and for succession planning for the Board and its committees. The average length of service on the Board following AGM 2023 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 appointment of Brian Weddell to the Search Committee; the appointment of Richard McCready as the Chair of the Remuneration Committee; and the extension of Eddie Thorn's term as a member and Chair of the Audit Committee until AGM 2024. This will result in Eddie Thorn exceeding the maximum tenure of 9 years as a member of the Audit Committee but was considered appropriate in the circumstances to allow the Audit Committee to retain his valuable knowledge and experience while the longer-term composition of the committee is considered.

For and on behalf of the Board

Jim Watson
President

John Brodie
Chief Executive Office

Alan Yuille
Secretary

28 March 2024

Corporate Social Responsibility

Introduction

As a Co-operative Society, we aim to align our operations with core co-operative values and principles. Scotmid consistently evaluates its performance against the social responsibility indicators previously set by Co-operatives UK to provide a base for comparison. Given the variety in our operations, finding relevant and immediate metrics for every sector of our business can be challenging. In these instances, we resort to using estimates or selective data from our food convenience sector as necessary.

We are dedicated to advancing with a sustainable business model and have established firm sustainability policies. A comprehensive sustainability roadmap has been developed to guide us in achieving our carbon reduction targets by 2030, incorporating both new and existing initiatives.

Maintaining our co-operative ethos is fundamental to our approach to sustainability.

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. This provides us with a snapshot of our members' economic involvement, but is not a complete picture. It is apparent from this data however that members who choose to use this card are spending more on visits than non-members; by around 20% on average. The recent launch of Member Only Benefits in January 2024 is anticipated to improve visibility of member economic engagement as this will encourage members to identify themselves at each transaction. We have also seen a marked increase in application for membership since inception of the scheme which will help to drive this.

Member Democratic Participation

162 members (2022-23 - 175) attended the Society's Annual General Meetings held on 24, 25 and 26 April 2023 and 160 members (2022-23 - 145) attended the Ordinary General Meetings on 2 and 3 October 2023.

Colleague and Member Training

This year, training hours have settled back to circa 20,500 (2022-23 - 25,000 hrs), following a spike in training for the Kickstart scheme last year. Investment in training in the current year has been to support the implementation of the Society's new operating model and in the ongoing creation and tailoring of digital learning. 7,200 hours of e-learning were delivered which was slightly reduced from last year (2022-23 - 7,700 hrs). This variation can arise from the normal fluctuations in the cyclical training plan. The Society's strategic aim is to enhance digital learning as an approach.

Director and Regional Committee member training was delivered in person with a continued focus on increasing the variety of training sessions offered including new, bespoke sessions covering Communication, Strategy, the Wider Co-operative Movement, and the Role of the External Auditor, in addition to core training on Finance. The total number of training hours reduced to 352 hours (2022-23 - 437 hours). However, additional training was delivered in 2022-23 to compensate for the reduced training given during the Covid pandemic, and the level of training delivered this year was in line with expectation. Training offered was well received and the number of training hours per elected member was 9 hours (2022-23 - 11 hours).

Colleague Injury and Absentee Rates

Employee accidents recorded have continued to trend downwards with 233 recorded this year compared to 267 in 2022-23. There were 12 RIDDOR reportable accidents involving colleagues compared to 13 in the previous year, which remains stable. This equates to 0.3% of the average total workforce. Non-RIDDOR reportable accidents amounted to 6.2% of average workforce with a combined total of 6.5% (2022-23 - 7.2%). This year the focus has been on streamlining our processes and systems in line with the new operating model and the accuracy of data capture, while using data insights to guide our general approach to the management of health and safety. Days of absence lost are down to 6.75 in the current year continuing the trend from the pandemic generated peak. This sits below the national average across all sectors of 7.8 days according to CIPD. The reduction is due to a concerted focus on absence management, as well as other wellbeing initiatives which can prevent absence issues developing.

Colleague Profile

The colleague profile by gender at the year-end shifted marginally to 65% female and 35% male with a slight increase in male employees. This may relate to the contraction of the largely female Semichem division in prior years but could also reflect a broader shift in the marketplace.

Labour turnover has improved, down from a high, post pandemic in 2022. At the year-end we were tracking a few points below the current industry average for turnover in retail of 40.7%. Encouragingly we are retaining more colleagues for over one year, again consistent with the profile pre-pandemic.

We have now launched myScotmid, our HR Management system, and are in the process of integrating and migrating colleague data. In light of the data migration and changes to the way that data is reported, we are unable to report on our ethnicity profile for 2023.

The ethnic mix of our colleagues tends to be broadly representative of the communities in which we operate, and traditionally our highest levels of ethnic minority colleagues are reported in our urban locations in line with national demographics.

Customer Satisfaction

We have not conducted customer surveys this year, however, we regularly monitor customer feedback to identify any issues we need to address. Negative feedback has reduced in the year, reflecting additional training provided to store management to empower them to address customer issues directly.

Ethical Procurement

Around 90% of the Society's purchases for goods for resale in food 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.

Procurement of products and services to the group is managed through a centralised procurement function which follows a standardised process and requires suppliers to adhere to the sustainable and ethical requirements of the Society. 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 £632,000 (2022/23 - £676,000) donated.

The Society supported a broad range of local community initiatives with over 1,100 groups and charities receiving over £127,000 Community-based funding and support. Our successful "Winter Giving" initiative this year focused on food poverty and supporting warm hubs, with £50,000 distributed to 113 localised foodbanks, community pantries and hubs. In addition, the Society continued to support a number of larger charities including Crisis, Glasgow City Mission and the homelessness charity, Social Bite.

Cruse Scotland received a further £10,000 (2022-23 - £8,000) for their Early Support Bereavement Service which helps recently bereaved people. The Big House Project, co-ordinated by The Cottage Family Centre, benefitted from a third donation of £10,000 in addition to toiletries and household products while support for St Andrew's First Aid continued with a donation of £28,000 to provide uniforms for their army of volunteers. Smaller donations of £5,000 each were given to Police Scotland to buy rehabilitation bikes and to Scottish SPCA to fund 500 Pet Aid boxes, distributed via foodbanks. In March 2023, the Society partly sponsored the ITAKOM (It Takes All Kinds Of Minds) conference with a view to help improve awareness of neurodivergent conditions within the workplace and £15,000 was earmarked for seed funding to enable school groups to participate in Social Enterprise Academy Awards.

Based on member votes, £168,000 was shared by Community Connect groups in 2023. The Society was proud to announce that £295,000 was raised for charity partner Guide Dogs. Funds raised through the partnership will enable the training of two Guide Dog Mobility Specialists, three Habilitation Specialists and sponsor a litter of puppies. RNLI were selected as the Society's charity partner 2023/24 with the aim of fundraising to buy an Atlantic 85 lifeboat. Volunteers have been very enthusiastic, active and visible, at member meetings and in stores.

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 food stores and from our waste contractor who handles the other elements of the business. These estimates lead us to report that we have recycled the majority of our waste, minimising the use of landfill. The overall reduction in volume handled shows the impact of ongoing initiatives to reduce waste including our colleague waste giveaway programme and the "Too Good To Go" app which redirects end of life food, in addition to industry moves to remove unnecessary packaging. Our proportion of waste recycled remains at around 99% again based on estimates.

continues on page 27

Corporate Social Responsibility continued

Streamlined Energy and Carbon Report

INTENSITY	2023-24	2022-23
All Scopes tCO ₂ e per Colleague	2.24	2.19
% change	2.3%	-6.8%

ENERGY USAGE (kWh)	Consumption (kWh - 000s)	Consumption (kWh - 000s)
Gaseous and other fuels (Scope 1)	4,547	5,481
Transportation Scope	1,795	2,385
Scope 1 Total	6,342	7,866
Scope 2 Total - Grid supplied Electricity	32,468	33,733
Scope 3 Total - Transportation	186	229
Total	38,996	41,828

LOCATION-BASED EMISSIONS	Consumption (tCO ₂ e)	Consumption (tCO ₂ e)
Gaseous and other fuels (Scope 1)	832	1,000
Transportation Scope	421	568
Scope 1 Total	1,253	1,568
Scope 2 Total - Grid Supplied Electricity	6,723	6,523
Scope 3 Total - Transportation	42	53
Total	8,018	8,144

The figures above show the consumption and associated emissions for this reporting year for our operations throughout the UK, with figures from the previous reporting period included for comparison.

Scope 1 - consumption and emissions include direct combustion of natural gas, and fuels utilised for transportation operations, for example, company vehicle fleets.

Scope 2 - consumption and emissions refer to indirect emissions related to the consumption of purchased electricity in day-to-day business operations.

Scope 3 - consumption and emissions cover emissions

resulting from sources not directly owned by us. This relates to grey fleet (business travel undertaken in employee-owned vehicles) only.

The volatility experienced in the market through 2022 which continued to impact into 2023 has now started to settle with prices reducing in the wholesale arena.

This has prompted continued discussions on the direction of the energy supply to the Society. Various options are being considered for the supply moving forward with all ensuring a transparent source of green energy with the required REGO backed certificates included to validate this.

During the period 2023-24 we accelerated the progress of self

generation and energy reduction through the installation of solar panels at the Bo'ness store, voltage optimisation and increased installation of LED into the estate. Following successful trials and data gathering of these activities we plan to roll out further.

Energy usage overall has continued to decrease within the estate as a result of the additional and continued investment in both renewable and energy reduction technologies. Additional charging points and EV fleet have been introduced and whilst this shows a marginal 0.5% increase of electricity usage in affected stores we are still reporting a decrease in energy use overall. There is an increase after conversion to tCO₂e, however, this

is impacted by the reduction in headcount and a change in the underlying conversion factor.

There is a similar picture in the transportation figures. The reduction of fleet users, additional electric and hybrid vehicles and reduction of internal travel have all contributed to an overall decrease.

In the previous year's report we had discussed the intention to use both location and market based reporting, however as with the previous year, we have gone through a period of movement between brokers and this has not been possible.

The information presented has been created from actual source usage data for the year from all sites and all fleet use. Emissions data as per the above, is in line with location based reporting as per the current SECR requirements. Any identified gaps have been filled using comparative industry averages.

Energy Efficiency Action

The Society continues to move forward with the self-generating energy initiatives through installation of solar panels at the Bo'ness store. This is further supported in the continued fitting of LED lighting and fridge doors across identified stores.

Planning of further reduction measures into 2024 is moving forward with opportunities to install additional solar where viable and further LED fit-outs and fridge door installation where renewal of fridges is not currently possible.

The electric and hybrid vehicle integration into the Society continues to build pace with additional vehicles in both Snappy

Shopper and Funeral. Similarly the fleet contract has been renewed with more options for these vehicles.

The Sustainability strategy and roadmap is under constant review in line with BRC climate action goals and pathway. Further discussions and moves towards these are ongoing through regular quarterly briefings with other retail organisations committed to the same direction.

Next Steps to Further Reduce Impact

Following on from our aim last year, we have continued to identify suitable solar sites and are currently in the stages of finalising the next viable sites.

We have also been provided with the final proposal for the fast charging public points, which have also been offered to Head Office, as part of a tenant incentive package to maximise electric fleet usage. This offering continues to be at no cost to the Society with revenue generation.

Modern Slavery Statement for Financial Year 2023-24

This statement is made pursuant to s.54 of the Modern Slavery Act 2015 and sets out the steps that Scottish Midland Co-operative Society Ltd (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. The Society is 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

Scotmid is Scotland's largest independent co-operative and has been at the heart of Scottish communities since 1859. Our businesses include Scotmid Co-operative, Lakes & Dales Co-operative, Semichem, Scotmid Funeral Directors, and our property division. The Society employs around 3,500 people in Scotland, Northern Ireland and the North of England in around 270 retail units and funeral sites.

As a co-operative society, Scotmid is owned by its members, who each have an equal say in how we are run. We are true to our co-operative values and principles, and we are committed to supporting our local communities through investment in community and co-operative initiatives.

We are incorporated in Scotland under the Co-operative and Community Benefit Societies Act 2014. Our registered address is Hillwood House, 2 Harvest Drive, Newbridge, Edinburgh, EH28 8QJ.

Corporate Social Responsibility continued

While none of our turnover is generated by overseas operations, we do acquire some of our products from overseas suppliers, principally for the Semichem business.

Our Suppliers

Over the past 12 months the Society has used around 1,000 individual suppliers who provide the range of goods and services we require in our business.

In relation to our food business, approximately 90% of the products we sell in store are supplied by the Cooperative Group Limited, via a joint buying arrangement managed by Federal Retail and Trading Services Limited (FRTS) which represents Scotmid and a number of independent retail co-operatives. FRTS adopts The Coop Group's Modern Slavery Statement and Sound Sourcing Code of Conduct (SSC) which can be found at <https://www.co-operative.coop/ethics>. The SSC sets out the workplace and employment standards that we expect of all our suppliers

FRTS suppliers are identified for audit using a risk-based approach determined by their responses to SEDEX (Supplier Ethical Data Exchange) questionnaires, worker profiles, country of origin and sector analyses. Through this monitoring programme over 2,500 co-op own-branded supplier sites are covered, comprising over 700,000 workers across six continents and 70 countries.

In addition to accessing products through FRTS, we directly manage a number of suppliers, for whom we carry out due diligence checks. Our standard Terms and Conditions seek undertakings and warranties that our suppliers comply with our ethical trading standards and with anti-slavery and human trafficking legislation. In addition, we conduct a credit check and online search of the supplier to ensure that the

organisation is trading lawfully and without impediment. We routinely check our suppliers' compliance with relevant industry standards e.g. Safe and Local Supplier Approval (SALSA), which provides additional reassurance on trading standards. Our suppliers must agree to allow inspection of their premises if required. We may terminate the contract at any time should any instances of modern slavery come to light.

Risk Areas

The signs of modern slavery can often be very subtle and difficult to identify. We recognise that while we cannot remove all risk of modern slavery in our supply chain, we must remain vigilant and continue to apply a risk-based approach to our suppliers. To this end, we continue to take steps through our due diligence and audit processes to ensure we understand areas of our Society and supply chain in which there may be a greater risk. We are committed to continuing to engage with suppliers to explore, further understand and discuss risks associated with modern slavery.

Our Policies and Training

We operate a number of other internal policies to ensure that we are conducting our business in an ethical and transparent manner, and support this with relevant training where appropriate:

- Recruitment policy - we operate a robust recruitment policy; this includes conducting eligibility to work in the UK checks for all colleagues to safeguard against human trafficking.
- Whistleblowing policy and confidential whistleblowing helpline - informing colleagues how to raise concerns about inappropriate practices within our Society without fear of reprisal.

- Dignity and Respect at work policy and e-learning - ensuring all colleagues are treated with dignity and respect, and understand their obligations and rights as an employee.
- Equal opportunities policy
- Wellbeing Training
- People Management Training

In addition, we provide support to all colleagues through our Employee Assistance Programme, which is a free confidential helpline service allowing colleagues to get advice on personal, home or work related issues.

Our Performance Indicators

We have had no reports from colleagues, the public or law enforcement agencies to indicate that modern slavery practices have been identified. We will continue to monitor as necessary.

For and on behalf of the Board

Jim Watson
President

John Brodie
Chief Executive Office

Alan Yuille
Secretary

28 March 2024

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 27 January 2024, 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 the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 27 January 2024 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the requirements of Co-operative and Community Benefits Societies Act 2014.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance

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

Use of our Report

This report is made solely to the Society's members, as a body, 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's members those matters we are required to state to them in an Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions Relating to Going Concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Directors' report, other than the financial statements and our Auditors' report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Matters on which we are Required to Report by Exception

Under the Co-operative and Community Benefits Societies Act 2014, we are required to report to you if:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

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

- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' Responsibilities

As explained more fully in the Directors' Responsibilities Statement on page 18, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit

conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We obtained an understanding of the legal and regulatory frameworks within which the Group operates, focusing on those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements.

The laws and regulations that we have determined to be direct in this context were the Co-operative and Community Benefits Societies Act 2014 alongside elements of company law, tax legislation, and the financial reporting framework. We also gained an understanding of the other legal and regulatory frameworks in which the Group operates, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. These considerations include the Groceries Supply Code of Practice (GSCOP), FCA Disclosure Guidance and Transparency Rules (DTR), Health and Safety at Work Act 2015, Food Hygiene Regulations 2006 and data protection laws.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Management override of controls to manipulate the

company's key performance indicators to meet targets;

- Compliance with relevant laws and regulations which directly impact the financial statements and those that the company needs to comply with for the purpose of trading.

Our audit procedures to respond to these risks included:

- Testing of journal entries and other adjustments for appropriateness;
- Evaluating the business rationale of significant transactions outside the normal course of business;
- Reviewing judgments made by management in their calculation of accounting estimates for potential management bias;
- Enquiries of management about litigation and claims and inspection of relevant correspondence;
- Reviewing legal and professional fees to identify indications of actual or potential litigation, claims and any non-compliance with laws and regulations;
- Analytical procedures to identify any unusual or unexpected trends or relationship; and
- Reviewing minutes of meetings of those charged with governance to identify any matters indicating actual or potential fraud.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware

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

of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission, or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

www.frc.org.uk/auditorsresponsibilities.

This description forms part of our Auditors' report.

Andrew Shaw
(Senior Statutory Auditor)

For and on behalf of Anderson
Anderson & Brown Audit LLP
Statutory Auditor
81 George Street,
Edinburgh, EH2 3ES
28 March 2024

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 27 January 2024.

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 prior to tax in the period to 27 January 2024 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 £121 million and net current assets of £0.7 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 £37.75m which is subject to gearing, earnings and capital spend related financial covenants and available until 2025. At 27 January 2024 the Group had cash balances of £9.8 million and had utilised £30 million (2022-23: £34 million) of its revolving credit facility.

The ongoing Ukrainian war has had an impact on the world economy directly affecting the overall supply chain and overhead costs, in particular wholesale energy prices. Although the Society has no direct exposure to it we are impacted by wider issues within the global supply chain and energy. We will continue

to monitor this. As seen during the covid pandemic our food business provides an essential service and remained resilient during the crisis.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements. These forecasts, include a severe but plausible increase in costs. Even in these severe 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.

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 28 March 2024. 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 27 January 2024 (2022-23 - 52 weeks to 28 January 2023).

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.

Statement of Accounting Policies

continued

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

Within the prior year, the Society completed a novation of the existing funeral bonds to Ecclesiastical Planning Services Limited in line with FCA requirements. Previously, amounts received in advance for funeral plans were recorded at fair value within assets and liabilities. Monies were 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 were disclosed within investments. Changes in fair value were included in the Group Profit and Loss Account. The asset and deferred income liability was 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.

Cash and Cash Equivalents

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

Stocks

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

Debtors

Credit account balances are included at gross value, less any provision made for bad and doubtful debts.

Financial Instruments

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

Derivatives entered into include interest rate swaps, caps and floors. Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value through the profit and loss account. The fair value of interest rate swap contracts are determined by calculating the present value

of the estimated future cash flows based on observable yield curves. The Society does not undertake any hedge accounting transactions.

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

Pension Costs

The Society operates a defined benefit funded pension scheme, a joint pension defined benefit pension scheme (with Allendale Co-operative Society Ltd) and also contributes to a number of defined contribution schemes.

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

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent

to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability is presented separately after other net assets on the face of the balance sheet.

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

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

Share Based Payment

The Society has applied the requirements of FRS 102 relating to share based payments. The Society issues equity-settled share-based payment to employees who opt to join the all employee share option plan. Equity-settled share-based payments are measured at fair value at the date of the grant. This is expensed in the profit and loss account.

Provisions

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

Grants

During the prior year, Kickstart Scheme income was 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 overrides relating to activities conducted during the financial period and settled at a future date.

Key Sources of Estimation Uncertainty

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

Impairment of Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating entity to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating entity and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £9,900,000.

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 27 January 2024

		2023-24 (52 weeks)	2022-23 (52 weeks)
		total	total
	notes	£000	£000
turnover	1	424,938	406,482
cost of sales		<u>(309,617)</u>	<u>(298,428)</u>
gross profit		115,321	108,054
other income	2	4,071	4,285
net expenses	3	<u>(115,109)</u>	<u>(109,307)</u>
trading profit		4,283	3,032
exceptional items	5	-	(1,543)
investment property revaluation	10	(1,408)	752
(loss)/profit on disposal of fixed assets		<u>(78)</u>	<u>765</u>
operating profit		2,797	3,006
net finance charges	6	<u>(2,075)</u>	<u>(643)</u>
surplus before distributions		722	2,363
distributions			
share interest		(52)	(52)
grants and donations	7	<u>(560)</u>	<u>(552)</u>
surplus before taxation		110	1,759
taxation	8	<u>8</u>	<u>(729)</u>
surplus for the financial year		<u>118</u>	<u>1,030</u>

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 27 January 2024

		2023-24 (52 weeks)	2022-23 (52 weeks)
		total	total
	notes	£000	£000
surplus for the financial year		<u>118</u>	<u>1,030</u>
actuarial (losses)/gains on defined benefit pension scheme	18	<u>(2,293)</u>	<u>11,675</u>
tax relating to components of other comprehensive income	8	<u>554</u>	<u>(2,989)</u>
other comprehensive (loss)/gain for the period		<u>(1,739)</u>	<u>8,686</u>
total comprehensive (loss)/income for the period		<u>(1,621)</u>	<u>9,716</u>

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

Group Balance Sheet as at 27 January 2024

	notes	2023-24 £000	2022-23 £000
fixed assets			
intangible assets	9	9,900	11,754
tangible assets	10	52,397	55,840
investment properties	10	101,666	102,276
investments	11	<u>1,786</u>	<u>1,820</u>
		165,749	171,690
current assets			
stocks - goods for resale		25,603	24,884
debtors and prepayments	12	14,191	11,790
cash at bank and in hand		<u>9,801</u>	<u>9,907</u>
		<u>49,595</u>	<u>46,581</u>
current liabilities			
amounts falling due within one year			
creditors	13	<u>(48,899)</u>	<u>(46,833)</u>
net current assets/(liabilities)		<u>696</u>	<u>(252)</u>
total assets less current liabilities		166,445	171,438
long term liabilities			
amounts falling due after more than one year			
creditors	14	(31,286)	(35,361)
provisions for liabilities			
deferred taxation	8	(8,022)	(6,398)
other provisions	15	<u>(201)</u>	<u>(2,030)</u>
net assets excluding pension liability		126,936	127,649
pension liability	18	(6,111)	(5,188)
net assets		<u>120,825</u>	<u>122,461</u>
financed by			
share capital	17	6,208	6,223
non-distributable reserve		41,328	42,951
revenue reserve		73,289	73,287
shareholders' funds		<u>120,825</u>	<u>122,461</u>

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 28 March 2024. They were signed on its behalf by:

Jim Watson **President**
 Eddie Thorn **Vice President**
 Alan Yuille **Secretary**

Group Statement of Changes In Shareholders Funds for the year ended 27 January 2024

	notes	share capital £000	non- distributable reserve £000	revenue reserve £000	total £000
at 28 January 2023		6,223	42,951	73,287	122,461
surplus for the financial year		-	-	118	118
transfer of realised revaluation on disposal of properties		-	(215)	215	-
actuarial losses on defined benefit pension scheme	18	-	-	(2,293)	(2,293)
tax relating to items of other comprehensive income		-	-	554	554
total comprehensive loss		-	(215)	(1,406)	(1,621)
withdrawal of share capital	17	(67)	-	-	(67)
expenses of members capital	17	52	-	-	52
reclassification of revaluation of investment properties		-	(1,408)	1,408	-
at 27 January 2024		6,208	41,328	73,289	120,825

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

Group Cash Flow Statement for the year ended 27 January 2024

		2023-24 (52 weeks)	2022-23 (52 weeks)
	notes	£000	£000
net cash flows from operating activities	19	13,007	7,599
cash flows from investing activities			
net proceeds from sale of equipment		-	136
net proceeds from sale of investment properties		445	6,219
purchase of investment properties	10	(820)	(6,495)
purchase of equipment	10	(6,456)	(15,379)
purchase of intangible assets	9	-	(155)
interest received	6	62	549
interest paid	6	(397)	(4)
net cash flows from investing activities		<u>(7,166)</u>	<u>(15,129)</u>
cash flows from financing activities			
share interest, grants and donations		(612)	(604)
repayments of borrowings	21	(4,000)	(2,000)
new finance leases	21	689	1,763
repayments of obligation under finance lease	21	(502)	(217)
investment movement		(15)	23
new bank loans raised		-	7,000
interest paid		(1,507)	(824)
net cash flows from financing activities		<u>(5,947)</u>	<u>5,141</u>
net decrease in cash and cash equivalents		<u>(106)</u>	<u>(2,389)</u>
cash and cash equivalents at beginning of year		9,907	12,296
cash and cash equivalents at end of year	21	<u>9,801</u>	<u>9,907</u>
reconciliation to cash at bank and in hand			
cash at bank and in hand at end of year		<u>9,801</u>	<u>9,907</u>

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

1. turnover	2023-24	2022-23
	(52 weeks)	(52 weeks)
class of business	£000	£000
retail	417,729	399,484
property	7,209	6,998
turnover	<u>424,938</u>	<u>406,482</u>

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

2. other income

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

3. net expenses	2023-24	2022-23
	(52 weeks)	(52 weeks)
	£000	£000
personnel costs	60,793	60,159
occupancy costs (excluding depreciation)	24,135	20,235
depreciation of owned assets	8,897	8,812
depreciation of assets held under finance leases	500	286
amortisation of goodwill	1,854	1,847
operating lease rentals - equipment and vehicles	592	517
fees - directors and committee members	277	223
expenses and delegations - directors and committee members	32	28
auditors' remuneration for group accounts	115	104
auditors' remuneration for subsidiary accounts	15	15
other expenses	17,899	17,081
	<u>115,109</u>	<u>109,307</u>

Included within occupancy costs and other expenses is £4,431,000 relating to operating lease rentals for land and buildings (2022-23 - £4,774,000).

4. employees	2023-24	2022-23
	total	total
	number	number
the average number employed was:		
full time	1,066	1,088
part time	2,518	2,638
	<u>3,584</u>	<u>3,726</u>

the costs incurred in respect of these employees were

	£000	£000
wages and salaries	55,867	54,735
social security costs	3,582	3,572
other pension costs	1,344	1,852
	<u>60,793</u>	<u>60,159</u>

In the prior year the Society received Government assistance from the Kickstart Scheme of £543,000.

Notes to the Group Accounts

4. employees - continued

2023-24
(52 weeks)

2022-23
(52 weeks)

directors' emoluments

£000

£000

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

fees and delegations	<u>156</u>	<u>145</u>
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In addition, one director received a loyalty bonus totalling £59,000 on leaving the Society's service.

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

	number	number
£5,001 - £7,500	1	-
£7,501 - £10,000	3	5
£10,001 - £12,500	7	5
£15,001 - £17,500	-	1
£17,501 - £20,000	1	-
£22,501 - £25,000	1	1
	<u>13</u>	<u>12</u>

management executive emoluments

£000

£000

the total remuneration of the management executive was

wages & salaries	1,404	1,518
taxable benefits	26	51
pension and pension allowance costs	231	231
	<u>1,661</u>	<u>1,800</u>

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

	number	number
£70,001 - £80,000	1	-
£120,001 - £130,000	-	1
£130,001 - £140,000	-	2
£140,001 - £150,000	-	1
£170,001 - £180,000	-	1
£190,001 - £200,000	3	-
£240,001 - £250,000	-	1
£570,001 - £580,000	-	1
£720,001 - £730,000	1	-
	<u>5</u>	<u>7</u>

5. exceptional items	2023-24 (52 weeks) £000	2022-23 (52 weeks) £000
business integration, disruption and rationalisation costs	-	1,543
	<u>-</u>	<u>1,543</u>

Business integration, disruption and rationalisation costs include the impact of onerous leases, distribution reorganisation, dilapidation, asset impairment, legacy costs and income. Within the year exceptional items totalling £1,800,000 were incurred on restructuring costs, dilapidations and asset impairment. These were offset by a separate write back of property provisions.

6. net finance charges	2023-24 (52 weeks) £000	2022-23 (52 weeks) £000
interest payable		
funeral bond interest	-	379
bank overdraft and loan interest	1,409	821
finance leases	98	3
other interest	2	4
movement in fair value of derivatives	395	-
interest cost on pension scheme liabilities	<u>3,295</u>	<u>2,070</u>
total interest payable	<u>5,199</u>	<u>3,277</u>
less - interest receivable and investment income		
expected return on pension scheme assets	3,062	1,706
unlisted investments	54	53
other interest	8	1
funeral bond interest	-	379
movement in fair value of derivatives	<u>-</u>	<u>495</u>
total interest receivable	<u>3,124</u>	<u>2,634</u>
total	<u>2,075</u>	<u>643</u>

In line with the FCA regulation of Funeral Bonds, transfer of the bonds to a third party, Ecclesiastical Planning Services Limited, took place in July 2022.

7. grants and donations	2023-24 (52 weeks) £000	2022-23 (52 weeks) £000
member relation activities & grants	542	531
donations	18	21
	<u>560</u>	<u>552</u>

Notes to the Group Accounts

8. taxation	2023-24 (52 weeks) £000	2022-23 (52 weeks) £000
8a. profit and loss account and other comprehensive income		
current taxation		
UK corporation tax charge for the year	(237)	388
adjustment in respect of prior years	<u>(1,949)</u>	<u>(18)</u>
total current taxation	(2,186)	370
deferred taxation		
origination and reversal of timing differences	976	595
adjustment in respect of prior years	1,163	(424)
adjustment due to change of tax rate	<u>39</u>	<u>188</u>
total deferred taxation	2,178	359
total profit and loss account taxation charge	<u>(8)</u>	<u>729</u>
other comprehensive income items		
deferred tax in current year	<u>(554)</u>	<u>2,989</u>

8b. taxation reconciliation

The tax in the profit and loss account for the year is higher (2022-23 higher) from the standard rate of corporation tax in the UK. The difference is explained below.

surplus before tax	<u>110</u>	<u>1,759</u>
tax on surplus at standard rate of corporation tax in the UK of 24.03% (2022-23: 19%)	26	334
factors affecting current tax charge for the year		
expenses not deductible for tax	1,044	254
net depreciation and capital allowances	(680)	(13)
income not taxable	(190)	(114)
movement in short term timing differences	(525)	-
generation/(utilisation) of tax losses	178	-
sale of property	43	-
effects of group relief/other relief	(133)	-
gains/rollover relief	-	(73)
adjustment to tax in respect of prior years	<u>(1,949)</u>	<u>(18)</u>
current tax in year	(2,186)	370
factors affecting deferred tax charge for the year		
expenses not deductible for tax	-	132
depreciation in excess of capital allowances	680	-
movement in short term timing differences	525	-
income not taxable	-	(423)
adjustment from prior periods	1,164	-
effects of tax rate changes	39	188
effects of group relief / other reliefs	133	-
movement in unrealised gains on investment properties	<u>(363)</u>	<u>462</u>
deferred tax movement in year	2,178	359
tax charge for the year	<u>(8)</u>	<u>729</u>

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. During the year, a substantial review of capital allowances was carried out resulting in a change to the prior two years tax computations.

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

The UK corporation tax rate for the chargeable accounting period ended 27 January 2024 is 24.03%. The UK government announced in March 2021 that the UK corporation tax rate would increase from 19% to 25% from 1 April 2023. The rate increase was substantively enacted on 24 May 2021.

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 substantively 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 surplus recognised by the Society of £118,000 (2022-23 - £1,384,000 surplus) 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 arrangements 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 19 October 2023, to pay the appropriate taxes we owe by seeking to pay the right amount of tax (but no more) at the right rate, in the right place and at the right time. A full copy of the tax policy and strategy is published on our website.

Notes to the Group Accounts

8c. deferred taxation	2023-24 £000	2022-23 £000
deferred tax		
provision at beginning of year	(6,398)	(3,050)
adjustment in respect of prior years	(1,163)	423
deferred tax charge to income statement in the period	(1,015)	(782)
deferred tax charge to other comprehensive income statement in the period	554	(2,989)
deferred tax provision at the end of the year	<u>(8,022)</u>	<u>(6,398)</u>
deferred tax assets/(liabilities)		
fixed asset timing differences	(11,234)	(7,653)
short term timing differences	235	218
losses	2,977	1,037
deferred tax provision at the end of the year	<u>(8,022)</u>	<u>(6,398)</u>

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 £11,234,000 (2022-23 - £7,746,000).

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.

deferred tax assets		
recoverable within 12 months	685	114
recoverable after 12 months	2,527	1,234
deferred tax assets	<u>3,212</u>	<u>1,348</u>
deferred tax liabilities		
payable after 12 months	(11,234)	(7,746)
deferred tax liabilities	<u>(11,234)</u>	<u>(7,746)</u>

9. intangible assets

goodwill	cost	amortisation	balance sheet value
	£000	£000	£000
at the beginning of the year	52,968	(41,214)	11,754
amortisation provided for the year	-	(1,854)	(1,854)
at the end of the year	<u>52,968</u>	<u>(43,068)</u>	<u>9,900</u>

10. tangible fixed assets

	land & buildings £000	investment properties £000	plant vehicles & fixtures £000	total £000
cost or valuation				
28 January 2023	33,569	102,276	111,008	246,853
additions	268	820	6,188	7,276
disposals	-	(345)	(1,304)	(1,649)
reclassification	22	323	(412)	(67)
revaluation	-	(1,408)	-	(1,408)
27 January 2024	<u>33,859</u>	<u>101,666</u>	<u>115,480</u>	<u>251,005</u>
depreciation				
28 January 2023	16,242	-	72,495	88,737
provided for the year	786	-	8,611	9,397
disposals	-	-	(1,125)	(1,125)
reclassification	(59)	-	(8)	(67)
27 January 2024	<u>16,969</u>	<u>-</u>	<u>79,973</u>	<u>96,942</u>
balance sheet value at 28 January 2023	<u>17,327</u>	<u>102,276</u>	<u>38,513</u>	<u>158,116</u>
balance sheet value at 27 January 2024	<u>16,890</u>	<u>101,666</u>	<u>35,507</u>	<u>154,063</u>

The net book value of the group's fixed assets includes £2,543,000 (2022-23 - £2,338,000) in respect of assets held under finance leases. All assets classified as Land & Buildings are freehold properties. All assets under finance leases are held within plant, vehicles & fixtures.

Investment properties were independently valued by Chartered Surveyors D M Hall LLP and Sanderson Weatherall LLP as at 27 January 2024 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 £17,630,000 (2022-23 - £17,895,000) of investment properties held by Scotmid Pension Limited Partnership. These properties provide security for the Asset Backed Funding Arrangement put in place during 2012-13.

Notes to the Group Accounts

11. investments	long term	current	total	long term	current	total
	2023-24 £000	2023-24 £000	2023-24 £000	2022-23 £000	2022-23 £000	2022-23 £000
unlisted investments						
Co-operative Group shares	1,341	-	1,341	1,341	-	1,341
other C & CB Societies	2	-	2	2	-	2
others	453	-	453	487	-	487
joint ventures	(16)	-	(16)	(16)	-	(16)
	<u>1,780</u>	<u>-</u>	<u>1,780</u>	<u>1,814</u>	<u>-</u>	<u>1,814</u>
listed investments						
others	6	-	6	6	-	6
	<u>1,786</u>	<u>-</u>	<u>1,786</u>	<u>1,820</u>	<u>-</u>	<u>1,820</u>
				unlisted investments £000	listed investments £000	total £000
cost or valuation						
balance sheet value at 28 January 2023				1,814	6	1,820
disposals				(34)	-	(34)
balance sheet value at 27 January 2024				<u>1,780</u>	<u>6</u>	<u>1,786</u>

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 27 January 2024 was £34,000 (2022-23 - £35,000) and therefore the fair value would add £29,000 (2022-23 - £30,000) 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.

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

11. investments - continued

	Scotmid - Miller (Great Junction Street)	
	2023-24	2022-23
	£000	£000
gross assets	6	6
gross liabilities	(22)	(22)
net liabilities	(16)	(16)
net investment	(16)	(16)

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

	2023-24	2022-23
	£000	£000
12. debtors and prepayments due within one year		
trade debtors	98	456
prepayments and other debtors	11,363	11,192
corporation tax recoverable	2,730	142
	<u>14,191</u>	<u>11,790</u>

	2023-24	2022-23
	£000	£000
13. creditors falling due within one year		
trade creditors	20,935	20,583
holiday pay	556	556
VAT	2,183	1,750
other sundry creditors	6,519	6,002
accrued charges	17,218	16,041
PAYE and social security	822	1,498
obligations under finance leases (see note 14)	666	403
	<u>48,899</u>	<u>46,833</u>

Notes to the Group Accounts

	2023-24 £000	2022-23 £000
14. creditors falling due after more than one year		
bank loans	30,000	34,000
obligations under finance leases	1,286	1,361
	<u>31,286</u>	<u>35,361</u>
borrowings are repayable as follows:		
bank loans		
between one and two years	30,000	-
between two and five years	-	34,000
	<u>30,000</u>	<u>34,000</u>
finance leases		
between one and two years	700	427
between two and five years	586	934
	<u>1,286</u>	<u>1,361</u>
on demand or within one year	666	403
	<u>1,952</u>	<u>1,764</u>
total bank loans, deferred income, and finance leases excluding bank overdraft		
between one and two years	30,700	427
between two and five years	586	34,934
	<u>31,286</u>	<u>35,361</u>
on demand or within one year	666	403
	<u>31,952</u>	<u>35,764</u>

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

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

HSBC were appointed in March 2019 with funding covering 5 years with a 1 year extension option exercised. The facility includes a £37,750,000 Revolving Credit Facility and a £4,000,000 Overdraft. The extension was granted by HSBC in March 2020. At year end a loan balance of £30,000,000 (2022-23: £34,000,000) existed. Gross borrowing to net assets, Minimum EBITDA, and Capital Expenditure are covenants associated with the facility. Interest rate is SONIA plus a margin between 1.05% and 1.2% during the year.

15. provisions	£000
28 January 2023	(2,030)
utilised	1,829
27 January 2024	<u>(201)</u>

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

16. derivatives	2023-24	2022-23
	£000	£000

derivative financial instruments held to manage interest rates

interest rate derivatives (at fair value)	<u>413</u>	<u>808</u>
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The Society's interest rate derivatives with a value of £13,000,000 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 2024 and March 2025.

17. share capital	2023-24	2022-23
	£000	£000

at beginning of year	6,223	6,200
interest	<u>52</u>	<u>52</u>
	6,275	6,252
contributions	<u>79</u>	<u>78</u>
	6,354	6,330
withdrawals	(146)	(107)
at end of year	<u>6,208</u>	<u>6,223</u>

(i) share capital comprises 6,208,000 shares (2022-23 - 6,223,000) of £1 attracting interest at 1% (2022-23 1%).

(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 approved actuarial valuation was carried out at 25 January 2020. The January 2023 valuation is currently being reviewed. 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 27 January 2024	at 28 January 2023
rate of increases in pensions accrued post 05/04/97	LPI 5% (RPI)	3.00%	2.90%
	LPI 2.5% (RPI)	2.00%	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%	2.50%
discount rate		5.00%	5.00%
inflation assumption		3.10%	3.20%
life expectancy retiring today	male	84.6 years	86.1 years
	female	86.7 years	88.1 years
life expectancy in 20 years	male	86.4 years	87.7 years
	female	88.3 years	89.7 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% (2022-23: 0.2%) and the actuary has estimated, for illustration purposes, that the impact of a reduction in IRP 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 changing the long term gap between RPI and CPI to 0.4% (0.5%; 2022-23). 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.

	2023-24 £000	2022-23 £000
current service cost	789	1,339
net interest cost	233	364
	<u>1,022</u>	<u>1,703</u>

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

	at 27 January 2024	at 28 January 2023
present value of defined benefit obligations	(65,104)	(66,386)
fair value of scheme assets	58,993	61,198
deficit	<u>(6,111)</u>	<u>(5,188)</u>
net liability recognised in the balance sheet	<u>(6,111)</u>	<u>(5,188)</u>

Seaton Valley Co-operative Society Ltd shared a funded defined pension scheme with Allendale Co-operative Society Ltd. Additional contribution payments made by Scotmid towards the opening deficit, based on the present value at time of merger, were ceased in 2021-22 with balance of £53,000 (2022-23 £53,000) surplus remaining. Work is currently being undertaken to close this pension plan.

18. accounting for pension costs - continued	2023-24	2022-23
analysis of the movement in the scheme deficit in the year	£000	£000
opening deficit in the scheme	(5,241)	(17,661)
current service cost	(789)	(1,339)
contributions	2,392	2,448
net financing charge	(233)	(364)
actuarial (loss)/gain	(2,293)	11,675
closing scheme deficit	(6,164)	(5,241)
Seaton Valley & Allendale Society pension surplus	53	53
total deficit	(6,111)	(5,188)
reconciliation of present value of scheme liabilities	£000	£000
opening defined benefit obligation	66,386	98,885
service cost	789	1,339
interest cost	3,295	2,070
contributions by employees	649	684
actuarial gain	(3,059)	(33,332)
benefits paid	(2,956)	(3,260)
closing defined benefit obligation	<u>65,104</u>	<u>66,386</u>
reconciliation of present value of scheme assets	£000	£000
opening fair value of the scheme assets	61,198	81,277
expected return	3,062	1,706
actuarial loss	(5,352)	(21,657)
contributions by employer	2,392	2,448
contributions by employees	649	684
benefits paid	(2,956)	(3,260)
closing fair value of the scheme assets	<u>58,993</u>	<u>61,198</u>
analysis of the fair value of scheme assets at the balance sheet date was as follows	£000	£000
equities	33,512	32,486
other	1,130	(9)
asset backed funding arrangement contribution	969	969
buy-in	10,323	11,660
liability driven investment	13,059	16,092
total market value of assets	<u>58,993</u>	<u>61,198</u>

In setting the expected return on the assets as at 27 January 2024, we have taken into account the yields on government bonds and quality corporate bonds and the advice of Mercer's in-house investment consultancy practice.

Notes to the Group Accounts

18. accounting for pension costs - continued

	2023-24 £000	2022-23 £000
amounts taken to the consolidated statement of comprehensive income		
actual return less expected return on pension scheme assets	(5,352)	(21,657)
experience gains/(losses)	833	(4,615)
changes in assumptions underlying the value of scheme liabilities	2,226	37,947
actuarial (loss)/gain before tax adjustments	<u>(2,293)</u>	<u>11,675</u>

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

	2023-24 £000	2022-23 £000
operating profit	2,797	3,006
adjustment for		
loss/(gain) on investment properties	1,408	(752)
loss/(profit) on disposal of fixed assets	78	(765)
depreciation charges	9,397	9,098
amortisation of goodwill	1,854	1,847
increase in stocks	(719)	(584)
decrease/(increase) in debtors	186	(2,729)
(decrease)/increase in creditors and other provisions	(23)	158
movement in pension liability	(1,603)	(1,109)
share of subsidiary loss	34	15
investment write-down	-	200
corporation tax paid	(402)	(786)
net cash inflow from operating activities	<u>13,007</u>	<u>7,599</u>

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

	2023-24 £000	2022-23 £000
decrease in cash for year	(106)	(2,389)
cash outflow/(inflow) from change in net debt and lease financing	3,813	(6,546)
movement in net debt for the year	3,707	(8,935)
opening net debt	(25,857)	(16,922)
closing net debt	<u>(22,150)</u>	<u>(25,857)</u>

21. cash flow statement: analysis of net debt	at 28 January 2023 £000	cashflow £000	other non-cash changes £000	at 27 January 2024 £000
cash at bank and in hand	9,907	(106)	-	9,801
debt due after 1 year	(34,000)	-	4,000	(30,000)
debt due within 1 year	-	4,000	(4,000)	-
finance leases repaid	(1,764)	502	-	(1,262)
new finance leases	-	(689)	-	(689)
	(35,764)	3,813	-	(31,951)
total	(25,857)	3,707	-	(22,150)

22. operating lease commitments

	land & buildings 2023-24 £000	plant, vehicles & fixtures 2023-24 £000	land & buildings 2022-23 £000	plant, vehicles & fixtures 2022-23 £000
leases which expire				
within one year	548	70	1,270	140
within two to five years	5,294	702	5,015	841
after five years	11,682	-	11,141	-
	17,524	772	17,426	981

At 27 January 2024 the commitment to make total future minimum lease payments in respect of operating leases is shown above.

23. 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 J Watson (P) (E 26/4/23)	11	1(C)		2	3(C)
Mr E Thorn (VP)	12	1	3(C)		
Mr H Cairney (P) (R 26/4/23) ♦	2				
Mr A Clark Hutchison	10		3		
Ms S Downie	11	1		3	
Mr I Gilchrist	11			1	1
Mrs K Harmon	12				4
Mr K Kelly	11				4
Dr R McCready	11			3(C)	
Mr D Paterson	11		3		
Mr M Ross	12	1	3		
Mr A Simm	11		1	1	
Mr B Weddell (E 26/4/23)	9				3
Total meetings held	12	1	3	3	4

Meetings held from 28 January 2023 to 27 January 2024

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

♦ On 26 April 2023, Harry Cairney retired as Society President with the thanks of the Board and Members for his long service.

The following changes to the composition of the Board committees took effect on 27 April 2023:

- Following his election as President, Jim Watson replaced Harry Cairney as Chair of the General Purposes Committee and the Search Committee. He was replaced as Chair of the Remuneration Committee by Richard McCready.
- Iain Gilchrist moved from the Search Committee to the Remuneration Committee.
- Andy Simm moved from the Remuneration Committee to the Audit Committee, having served his full term of office on the Remuneration Committee.

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

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

East Regional Committee		West Regional Committee		North Regional Committee	
Mr E Thorn (C 11/5/23)	8	Mr M Ross (C)	7	Mrs S Downie (C) ★	8
Mr D Paterson (VC) ★	8	Mr J Watson (VC)	7	Dr R McCready (VC)	8
Mrs R McCabe (MS 11/5/23) ★	8	Ms M Nolan (MS)	5	Mrs S McSorley (MS)	8
Mr H Cairney (R 26/4/23) ◆	2	Mr S Ballantyne ★	7	Ms E Farquhar ★	8
Mr J Baxter (E 26/4/23)	5	Mr S Curran ★	8	Mrs J Garnes ★	6
Mr D Costello	6	Mr I Gilchrist	6	Mr A Hutchison	5
Mr A Clark Hutchison	6	Ms K Harmon	5	Mr A MacLeish	8
Mrs H Dalley (E 26/4/23)	5	Mrs M Kane	6	Mr D Patterson	8
Mr C Henderson	5	Mr J Mills	8	Ms E Pipe	7
Mr J Hendrie ★	8	Mr G Randell ★	6	Mrs S Sandbach	6
Mrs L Hinds	8	Mrs K Scott	7	Mrs M Smith	8
Mr K Kelly ★	8	Mr C Sim	8	Mrs D Taylor	6
Mr J Mackenzie	7	Mr A Simm ★	8		
Mr B Weddell	8	Mr D Simpson	8		
Total meetings held	8	Total meetings held	8	Total meetings held	8

Meetings held from 28 January 2023 to 27 January 2024

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

★ Regional Committee Members whose terms of office will end at AGM 2024 and who have been nominated to serve a further term.

A Lakes & Dales Panel was formed in 2019 to consider applications for Community Grants and act as the Community Connect Selection Panel for the Lakes & Dales Region. The Panel is Chaired by Jim Watson with John Mills, Christopher Henderson and David Simpson co-opted to serve. They may attend either Regional Committee or Panel meetings



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