Annual Report

& Financial Accounts

for year ended 30 January 2021





Fair Tax

Scotmid coop

Turnover up £24m to £409m

Trading profit up by 14% to £6.4m

Net assets £102.9m

Scotmid coop

OUR CORE PURPOSE:

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

Rebuilding of stores at Bo'ness and Leven Street, Edinburgh completed

£300k raised for our charity of the year partners: Chest, Heart & Stroke Scotland

Covid Community Fund set up to support local groups facing challenges during the pandemic

CONTENTS

Advisors and Registered Office

Independent Auditor
KPMG LLP

Bankers
HSBC UK Bank plc

Solicitors
Anderson Strathern WS

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

Society Registration Number SP2059RS

Board Directors & Management Executive

Board of Directors


Harry Cairney
President


Andrew Clark-Hutchison


Sheila Downie


Iain Gilchrist


Jim Watson
Vice President


Kaye Harmon


Richard McCready


David Paterson


Michael Ross


Andy Simm


Eddie Thorn

For Board and Committee attendance see pages 56-57

Management Executive


John Brodie
Chief Executive Officer


John Dalley
Chief Financial Officer & Secretary


Stewart Dobbie
Head of Innovation & Change


Maurissa Fergusson
Head of Property & Facilities


Steve McDonald
Head of People & Performance*


Kevin Plant
Head of Food


Karen Scott
Head of Semichem

*Steve McDonald is due to retire in May 2021 and began a handover process with new appointment Margaret Anne Clark.

OVERVIEW

Socially distanced celebration: The opening of our brand new Bo'ness store in November 2020.

The Directors are pleased to present their report for the financial year ended 30 January 2021.

The Society's trading profit for the 53 weeks ended 30 January 2021 was £6.4m, 14% up on the £5.6m achieved last year. This has been a year dominated by the pandemic and the significant but varying impact it has had on our different businesses. The polarisation effect has been a feature of the crisis not only for business sectors but also for society as a whole. Despite COVID-19, it has been a year when a lot has been achieved. Our trading performance was underpinned by strong sales growth with turnover of £409m, an increase of £24m on last year. Although lower than last year because of the impact of the pandemic, the Society’s net asset backing also remained strong at £102.9m.

Changes in consumer behaviour during the pandemic resulted in an increase in local essential shopping in Scotmid’s food convenience stores. Customers visited less frequently, spent more each visit but the costs of operation were significantly more than usual. Like many other non-food retailers, Semichem was significantly impacted by the pandemic due to low footfall on high streets and a significant period of closure in the first wave. Our property portfolio suffered a reduction in rental income during the crisis due to the support provided to our tenants and a number of defaults. Scotmid Funerals conducted more funerals but at a reduced income per funeral due to safety and social distancing restrictions.

Scotmid's membership and community activity concentrated on the fulfilment of our core purpose through the Society's community-based response to the pandemic. The Society helped hundreds of local community groups and larger charities to alleviate hardship through a Covid Community Fund. A free home delivery service to those shielding was made available with our charity partner and a range of larger projects were supported with a focus on areas such as homelessness, food banks and mental health.

Last year we highlighted the importance of our continuous improvement philosophy to help guide the Society through the considerable challenges faced from global events, particularly COVID-19. In response to the pandemic the Society has harnessed innovative ideas to rise to this unprecedented challenge and continue to serve our communities effectively. We are very proud and thankful to the many colleagues who have gone above and beyond during the crisis, clearly demonstrating our core purpose in such difficult circumstances. Financially, it was a tougher second half to the year with the cost burden increasing, but with the benefit of our diverse set of businesses, backed up by government support, we have successfully co-operated together across all levels in the Society to deliver a strong year-end result. Looking forward, we still face considerable planning uncertainty surrounding the timing of the end of the crisis and the likely post-pandemic impact. Therefore, with our continuous improvement mindset, we will continue to adopt a flexible approach and focus on matters under our control to deliver our core purpose of serving our communities and improving people's everyday lives.

FOOD RETAIL

During the crisis, Scotmid’s community convenience stores have continued to perform well. Sales were strong as customers shopped less often but with bigger baskets. The preference for local shopping, limited travel, more home working and the closure of pubs and restaurants all had a knock-on effect on convenience store trade. Although most of our stores continued to record sales growth, stores in city centres or with a high reliance on food-to-go or tourism had a reduction in trade. The business also faced significant additional costs directly as result of the pandemic together with the background impact of rising employment costs.

Our frontline store colleagues rose magnificently to the significant challenges in the initial stages of the crisis. During a time of high sickness, with many colleagues required to self-isolate, all stores were kept open and serving our communities. Positive customer feedback was overwhelming in appreciation for the store teams during the first wave of the pandemic. Stores worked with local voluntary groups and our charity partner’s Kindness Volunteers to safely deliver groceries to people’s doorsteps. The online Snappy Shopper service was also expanded to more stores as the demand for deliveries increased significantly.

After the first lockdown, there was a loosening and then with increasing Covid cases in the winter, a phased regional tightening of government restrictions, culminating in a full lockdown. Both customers and colleagues have needed to adapt to these changes throughout the year. The national Coop FRTS supply

Above left: The new food store at Leven Street.

Top right: The new food store at Bo'ness.

Above: Protective screens and PPE implemented during the pandemic.

chain came under severe pressure from staff sickness, product consolidation by suppliers and panic buying in the first wave although this was much more limited in the second wave. As a result of working co-operatively with the support of the Semichem distribution network and local suppliers, we have been able to maintain strong availability in-store.

Unlike the first lockdown when development activity in Scotland was suspended, generally we were able to proceed with the programme of investment in the store estate during the second wave. A new purpose built store at Bo'ness and the re-development of a flagship store in Edinburgh that had been delayed, were completed. The store refit programme featured new improved environmentally friendly fridges, food-to-go equipment, new Scotmid Coop branding and a trial of Amazon lockers. Extra investment was also made to accelerate and complete the rollout of mobile printers and headsets, which were well received by our store teams, improving both communication and colleague safety.

Christmas

The best part of 2020

The Semichem Christmas campaign aimed to remind customers that there was something to look forward to during the crisis.

SEMICHEM

It has been a particularly difficult year for the Semichem business, after an encouraging start, helped by customers stocking up for the pandemic, there was an instant impact on high street footfall when lockdown was announced in March. Following a temporary change in government advice over Semichem’s essential retail classification (as a ‘non-dispensing pharmacy’) and the dramatic reduction in footfall, the decision was taken to close all Semichem stores. The stores closed on the 26th March and were closed for between 10 and 20 weeks in the first national lockdown.

Further lockdowns followed with the four nations applying a variety of rules at various times and as the pandemic surged there was a full national lockdown on 26th December 2020. With swathes of non-essential retail closed, these measures had an enormous impact on Semichem's result. It was particularly challenging in Northern Ireland, which had tight lockdown restrictions in place before Christmas, limiting trade at the busiest time of the year. Government support only partially covered the fixed costs of the business and could not compensate for the significant loss of turnover and the additional costs of social distancing measures.

The Semichem team have been flexible and agile to respond to the significant challenges faced. The majority of the team were placed on the government's Job Retention Scheme in the first lockdown. The warehouse continued to operate, albeit with a smaller team and the support switched to delivering essential products that were unavailable through the Coop supply chain to our food stores. In addition, the Semichem warehouse and distribution service was used as a hub for some of the Society’s important work with food banks, charities and community groups during the crisis. Our seasonal Christmas ranges were implemented early in anticipation shoppers would buy earlier and this proved successful. Range and promotional continuous improvement activity also moved forward in the year.

"The Semichem warehouse and distribution service was used as a hub for some of the Society’s important work with food banks, charities and community groups during the crisis."

FUNERAL

Scotmid Funerals conducted more funerals in 2020 as a result of an increase in Covid related deaths in the first wave of the pandemic. Safety measures limiting the number of mourners and the temporary withdrawal of certain funeral services (e.g. the provision of limousines) contributed to a fall in the average price paid for funerals. During the pandemic, we adapted our service to meet the strict Covid restrictions but always sought to provide the best personalised funeral possible, in line with the wishes of bereaved families.

General demand for funeral plans reduced in the year. Scotmid is a registered provider of funeral plans with the Funeral Planning Authority, a self-regulating organisation. Following a Treasury investigation, funeral plans will become regulated by the Financial Conduct Authority and the regulation will come into force by July 2022. Sellers and providers of funeral plans will have regulations modelled on financial organisations that create a mandatory new framework for the sale of funeral plans and we are currently considering the best way forward to work under these new regulations.

Our dedicated team of funeral colleagues provided compassionate care to bereaved families throughout the crisis but particularly in the early stages when the risks were uncertain. The Society backed this up with an investment in additional mortuary and storage facilities to ensure that our quality of care was not compromised as a result of the pandemic. Our programme of investment also included a new hearse, two new limousines and an upgrade to our websites.

Above: The Funeral division launched a new television advertising campaign emphasising the ability to personalise funerals.

Below: The new limousines were ideal for conducting smaller funerals during the crisis.

PROPERTY

Top: The Bo'ness Store before and after rebuilding. The new building includes two commercial units for letting.

Below: The Leven Street store in Edinburgh before and after rebuilding. The new building includes eight new residential flats above it for letting.

Scotmid Property's trading result was negatively impacted by the pandemic but better than anticipated at the start of the crisis. In common with the market sector as a whole, our commercial property income was the most affected. A number of our retail and hospitality tenants were unable to trade or were hit by the business operating restrictions and the stay-at-home rules. Some retail tenants were also impacted by the acceleration of the structural change to online shopping, but the neighbourhood locations of many of our retail properties insulated us from a higher level of income loss.

Residential property experienced a year of two very distinct halves. The market was effectively closed during the first lockdown but a stamp duty holiday and pent-up demand led to second half growth in capital values. Despite capital value growth, the closure of the market and stay at home rules meant reduced demand for city flat rentals in Edinburgh. We experienced a peak of voids in the first lockdown and while this recovered after re-opening, potential tenants have benefitted from more choice in the ordinarily busy city markets.

The Society's property team were proactive in the management of the commercial and residential portfolios in an effort to assist tenants and prevent unnecessary failures. This included tailored plans of support and advice on government financial assistance. The significant benefit of our long-standing diversification strategy was seen in the crisis.

Over many years the team have managed a phased reduction in the exposure to retail property affected by structural changes in the sector, and successfully re-invested the proceeds in other property sectors. In our commercial portfolio, this was illustrated by the positive capital growth achieved from our investment in industrial trade counter units. However, due to the significant negative impact of the pandemic on our remaining high street retail property investments, the growth in our valuation was restricted to £0.5m, a £2.5m reduction compared to the last year. With a significant investment in two major construction projects in Bo'ness and Edinburgh during the year, the capital value of the Society's investment property portfolio rose to £95.8m.

SOCIETY MATTERS & CENTRAL SUPPORT

Scotmid's surplus after tax for the financial year was £1.3m, £3.1m lower than last year. This result was significantly impacted by the pandemic, in particular by the £2.5m reduction in the revaluation gain on our investment property portfolio. There was a further reduction in the discount rate used to value our pension scheme liabilities; it reduced from 1.75% at January 2020 to 1.6% this year end. There was also a change in the inflation assumptions resulting from the phasing out of RPI. These and other economic factors contributed to a £2.9m increase in the pension scheme deficit, despite the Society making £2.3m of additional cash contributions during the year. With the impact of these changes to the assumptions used for our pension scheme valuation, shareholders' funds and net assets reduced by £2.1m to £102.9m. Overall, in the context of the pandemic it was still a solid year for the Society financially, with a positive £1m reduction in net debt to £24.3m.

Scotmid continues to support our communities in a range of different ways. Through the Society's complementary diversification strategy, we continue to invest and partner with promising local businesses. We have investments in the Start-up Drinks Lab and Product Guru. The Start-Up Drinks Lab were closed for normal business during the first lockdown but worked to assist Scotmid's stores with the bottling of sanitiser when it was otherwise unavailable. Their own brand products continue to develop with UK wide listings for "Sparklingly Sober" and for "Just the Tonic" in Scotland. Product Guru is a Glasgow based on-line business that helps to match supplier products with retailers. During lockdown some of the normal channels for supplier/retailer interaction have been restricted (e.g. trade shows) so this has encouraged the consideration of online alternatives like the service provided by Product Guru. In recognition of this opportunity, during the

Above: The Society was awarded the Fair Tax Mark for the fifth consecutive year.

Inset: The Society began a trial with the "Too Good To Go" app, which aims to reduce food waste.

Opposite Page: The Society raised £300,000 for our Charity Partners Chest, Heart & Stroke Scotland, Different Strokes and Chest, Heart & Stroke Northern Ireland.

Opposite inset: The Society was involved in lobbying in favour of the Protection of Workers Bill which was passed during the year.

year Scotmid made a further investment in Product Guru alongside a technology investment fund to help accelerate the development of the concept.

Scotmid's central teams support the Society's trading business and facilitate a range of continuous improvement activity. Following the lockdown in March, teams that were previously office-based switched to home working. A secure solution was put in place that has enabled colleagues working remotely to continue to support the front line teams in our stores and funeral homes. A key focus for the central teams was the welfare of front-line colleagues. Support provided ranged from regular communication updates, new e-learning material (including mental health support), helping employees and line managers through the stages of shielding, furlough and flexible furlough.

Continuous improvement activity included a new system to determine the optimum price for marking down stock nearing the end of its shelf life in food stores. This will be integrated with our "Too Good to Go" trial which continued in 21 stores. Work was also progressed on a new mobile-friendly version of the software we use to manage some important store tasks. A major success after many years of lobbying the Scottish Government was the approval of The Protection of Workers Bill. This will create a new statutory offence of assaulting, threatening or abusing retail workers and will provide our colleagues with further legal protections when they are carrying out their duties such as age-restricted sales.

Fair Tax

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

MEMBERSHIP DEVELOPMENT COMMUNITY & CHARITY ACTIVITY

Membership Development Community & Charity Activity

During the pandemic, it has not been possible to continue with all of our normal membership activity so the focus has been more weighted towards community activity. Two issues of member magazine ("Jigsaw") were published and the Christmas edition included enhanced member vouchers and information about the Society's response to the pandemic. As a COVID-19 precautionary measure, the collection of member votes in-store for our Community Connect scheme has been suspended. However, the Society has continued to operate the scheme with the good cause groups selected given an equal share of the regional Community Connect fund. The next round of Community Connect has started and the new community groups who have been shortlisted will receive their awards at our April AGM.

Governance and democratic oversight has continued to operate effectively during the pandemic. The Board and Regional Committees meet online and have fulfilled their normal governance requirements including the annual performance evaluation and training sessions. The Society's first online AGM was delivered successfully with positive feedback received.

Other Community and Charitable Activities

Consistent with our core purpose, the Society delivered a community-based response to the pandemic. We set up a Covid Community Fund and responded to hundreds of calls for support from groups facing significant challenges in the wake of COVID-19, particularly in the first wave of the pandemic. A free home delivery service to those shielding was made available with our charity partner and a range of larger projects were supported with a focus on areas such as homelessness, food banks and mental health. The list of organisations supported included Fareshare, the Retail Trust, Project Wingman, Social Bite, NHS Charities Together and two bereavement charities. A donation was also made to SAMH to fund their mental health Information Service and to Pancreatic Cancer UK in a two year funding agreement to help sponsor their research and another year of support for the cooperation band. There was less demand for immediate Covid funding support in the recent lockdown as many community groups are now established and operating to the "new normal".

Opposite page top: Project Wingman was just one of the many organisations to be supported by the Society during the pandemic.

Opposite Page inset: A special issue of Jigsaw was issued in Summer 2020 highlighting the Society's community response to the pandemic.

Above: The Society's first online AGM held in September 2020.

Inset: The Society operated free home delivery services in a number of stores in partnership with Chest, Heart & Stroke Scotland.

Local community groups continue to be innovative in finding ways to provide their services virtually and we have supported a wide range of these activities such as online tai-chi, chair aerobics, virtual balloon races and children's colouring competitions. Support also continued for homelessness charities over the winter with donations being made across our trading area including the Cyrenians and the Bethany Christian Trust in Edinburgh, Glasgow City Mission, Dundee United Community Trust and Gateway Inverness.

Due to the difficulties in fundraising during the pandemic, our charity partnership with Chest Heart & Stroke Scotland, Chest Heart & Stroke Northern Ireland and Different Strokes, North of England was extended until the end of November 2020. In the circumstances, it was very heartening that our members, colleagues and customers raised £300,000 for our charity partners. Children's Hospices Across Scotland were named as the 2021 Charity Partner in conjunction with Northern Ireland Children's Hospice, Jigsaw and St Oswald's Hospice. Funds raised through the partnership will enable vital development and expansion of outreach services.

Political Donations

Donations to the national Co-operative Party amounted to £14,780 and the Scottish Cooperative Party of £15,000.

On behalf of the Directors, I would like to thank all members, customers and colleagues for their support over the year. In particular, an extra special thank you to all the Society's colleagues who have gone above and beyond to continue to serve our communities during the pandemic.

Signed on behalf of the Directors

Harry Cairney
Society President

COMMUNITY CASE STUDIES

EAST REGION

Pesticide Free Balerno, a volunteer-run environmental friendly weeding group, were awarded a Community Grant of £500 to purchase hand tools, gardening equipment, buckets, gloves, stiff brushes and branded t-shirts.

Their mission is to protect the health of the environment whilst keeping their local community neat, tidy and weed-free without the need to use weed killers or chemicals.

Since the award, the group have gone from strength to strength with a regular band of committed volunteers, families and local groups who have all made a massive difference to their own community.

Volunteer Annie MacDonald shared that their successes have had a ripple effect across Edinburgh, with more pesticide-free groups popping up and more communities being aware of safe alternatives,

"From the bottom of my heart, from all at Pesticide Free Balerno, thank you. It has meant so much that Scotmid cares about our environment and health in our community and that you help local community groups making a difference for themselves."

WEST REGION

The Miracle Foundation was set up in 2016 to help bereaved children and young people in Lanarkshire, born upon the founders' own grief after their loss of a family member. They wanted to create a safe space for children and young people to recover and heal from bereavement and trauma.

The Miracle Foundation supports any child or young person between the age of 4 and 18 who is experiencing trauma, grief or loss, through counselling and art therapy one to one sessions and groups.

The Foundation received a grant of £500 to purchase play items, crafts and activities.

Mariam Tariq wrote "The kind donation which we received pre-lockdown has helped us to purchase crafts and activities to encourage children and families to open up about their feelings of grief, helping them to come to terms with their loss and to rebuild their lives and relationships. We are hugely appreciative and grateful for this generous gift and hope to continue our partnership with Scotmid in the future".

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

NORTH REGION

Strathmore Community Hub provides spaces for community events and workshops. Pre-Covid, they provided facilities for community groups and events, including a Men's Shed group. The team of volunteers behind the Hub have the overall aim of combatting social isolation, especially amongst the elderly, and encouraging community activities.

Photo Courtesy of ASM Media & PR

A donation was made to the Hub for the purchase of an anti-viral fogging machine and personal protective equipment.

The group's Secretary Chrissie Taylor said: "We are very happy that Scotmid is supporting Coupar Angus once again.

"In line with Government restrictions, this equipment will enable us to make the safest use of our community facilities. The sterilising machine will also be available for use by other local community groups who wish to borrow it.

Scotmid Director Sheila Downie said: "We are delighted to continue our support of the Hub, having provided funding last year for the purchase of a lawn mower.

"The Hub is a great facility for the Strathmore area and we look forward to seeing it go from strength to strength in the future."

LAKES & DALES REGION

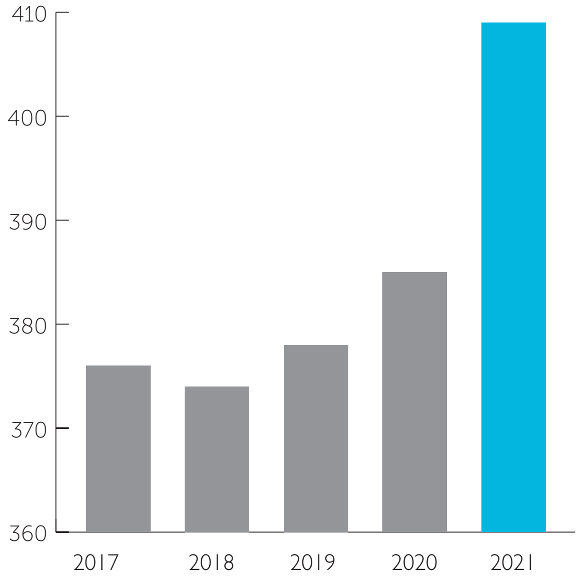
In January 2021, as a new national lockdown hit, communities faced another round of tough challenges. With demand soaring, food banks local to many of our stores reached out for support. **Seaton Delaval Community Food Hub** was one of the services that benefitted from our support. The Society was able to offer store vouchers so that the Hub could expand its service and offer access to fresh produce for those people in need.

Sue Bowman, one of the Hub's organisers said, "We were delighted to receive support from the Lakes and Dales Co-op. The Hub was set up in November 2020 to provide food for the residents. We now have double the number of families using the hub so this support has been vital."

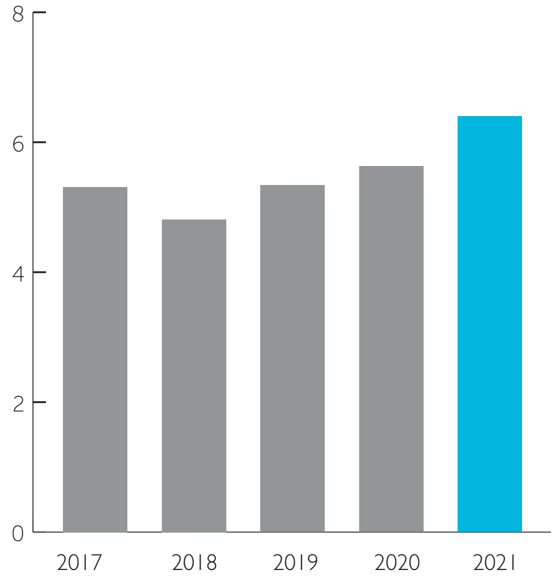
Group Five Year Summary

	2020-21	2019-20	2018-19	2017-18	2016-17
	53 weeks	**52 weeks**	**52 weeks**	**52 weeks**	**52 weeks**
number of members	156,603	155,997	155,343	268,125	266,627
	£000	**£000**	**£000**	**£000**	**£000**
turnover	409,084	384,952	377,856	373,712	376,169
trading profit	6,416	5,632	5,339	4,814	5,309
operating profit	4,623	7,632	8,291	7,924	9,735
surplus before taxation	2,836	5,680	6,360	5,958	7,623
surplus for the financial year	1,339	4,485	4,485	5,547	6,252
depreciation and amortisation	9,536	9,992	9,815	10,145	10,424
net finance costs	1,141	1,280	1,324	1,363	1,476
purchase of fixed assets	9,433	11,548	11,834	19,173	10,156
fixed assets	174,310	174,209	170,369	165,781	159,771
net current assets/(liabilities)	5,314	5,608	(31,608)	3,715	4,556
total assets less current liabilities	179,624	179,817	138,761	169,496	164,327
less long term liabilities	(49,189)	(50,694)	(13,797)	(48,510)	(48,870)
less provision for liabilities and charges	(2,823)	(2,190)	(2,703)	(2,090)	(1,341)
less pension liability	(24,759)	(21,856)	(19,236)	(19,340)	(22,585)
net assets	102,853	105,077	103,025	99,556	91,531
share capital	6,181	6,120	6,059	6,050	6,039
revenue reserves	58,222	61,249	62,135	62,936	51,316
non-distributable reserve	38,450	37,708	34,831	30,570	34,176
shareholders funds	102,853	105,077	103,025	99,556	91,531

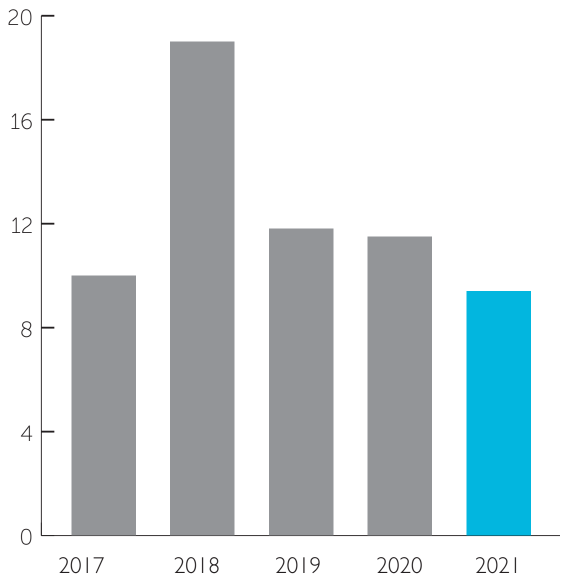
Turnover (£ millions)



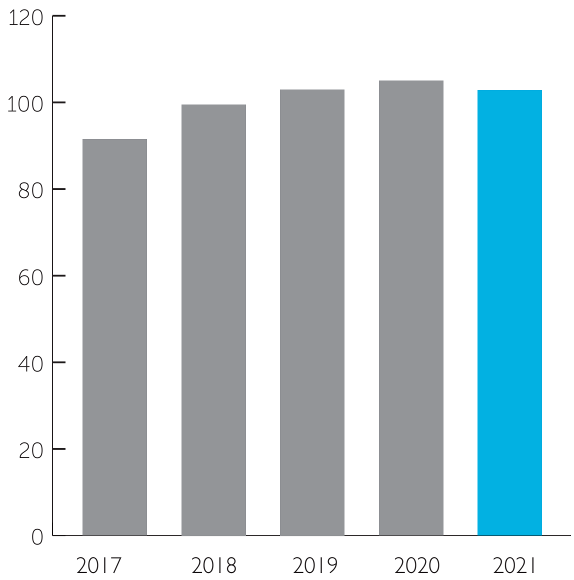
Trading profit (£ millions)



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.

Co-operative and Community Benefit Society law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under Co-operative and Community Benefit Society law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and of the group's profit or loss for that period. In preparing each of the group's 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 adequate accounting records that are sufficient to show and explain the Society's transactions and 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.

Governance Report

Co-operative Governance Code

The Co-operatives UK Co-operative Governance Code ("The Code") is based on the principles contained in the UK Corporate Governance Code. The Code sets out "a set of principles that all Co-ops can reflect on". Although the Society substantially complies with the Code, the format of the Code has changed with amendments introduced in November 2019 to both the Principles and their supporting Provisions. Accordingly, the Society is working through these amendments to consider their implications for the Society and to develop or amend current practices to bring the Society's governance into line with the revised Code. In the limited number of cases where the Society adopts an alternative approach to the new code we explain the background to the Society's approach. Board Committee Terms of Reference are in-line with the previous code and will be reviewed in 2021 when the new guidance on terms of reference becomes available.

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

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

   The Board has considered various methods to encourage Member participation at meetings. Biannual Member meetings are usually held in the Society's three regions to encourage attendance and make meetings more accessible to Members. Due to the pandemic, the Society postponed it's AGM usually held in late April, instead holding its first online event in September. Member attendance increased and excellent feedback was received with member elections undertaken by postal ballot. As part of the registration process, Members were posted an information pack providing further details of the agenda items relevant to their region. In addition, a number of video clips were made available both before and after the meeting. These included updates on awards made to supported Community Connect groups, and funding given to local communities during the pandemic.

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

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

b) **Member Value Statement:**

   The Society operates businesses that provide Members/customers goods and services and then invests surplus funds back into the local community. Members derive value from their ownership of the Society and through the democratic process, by making decisions on how the Society is run and how surplus funds are distributed. Local community groups are supported through the Community Grant and Community Connect schemes and Members, customers and colleagues actively support and fundraise for the Society's charity of the year. Members receive regular Society updates via the 'Jigsaw' magazine and are encouraged to attend Members' meetings and participate in the democratic organisation of the Society. Members are encouraged to trade with the Society and regularly receive rewards/incentives.

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

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

3) **Roles and Responsibilities:**

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

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

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

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

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

b) **Member Training:** A comprehensive training programme is usually offered to all Board and Regional Committee Members each year covering a variety of topics which includes training specifically for elected Members preparing to join the Board. The training offered is based on the results of the annual evaluation process together with feedback from the Board/Regional Committee Members. Although the Society does not provide a programme of training sessions which all Directors must attend, each Regional Committee Member must undertake specific training should they wish to progress onto the Board. In the past year, a reduced number of training sessions were provided due to the pandemic, however, a number of online training events were successfully delivered and positive feedback received. Further online sessions are planned for 2021 and a review of the delivery channels will be undertaken later in the year.

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

Audit Committee Financial Experience: Two members of the Audit Committee are Fellows of the Chartered Banker Institute which the Board considers to be appropriate financial experience. All Directors are elected by the Members and are drawn from the Society's trading areas. They are appointed to a Board Committee according to their skills and experience, and collectively have a range of knowledge and competence relevant to the Society's operations.

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

Remuneration Disclosure: The total remuneration and the salary bandings of the Chair, Chief Executive Officer and members of the Executive team are shown in the Notes to the Accounts which is considered to be appropriate disclosure.

Membership Matters

As a Member owned democratic organisation, the Board recognise the importance of encouraging Members to play their part in the governance of the Society and to improve Membership participation. Membership matters including Membership strategy and development are the responsibility of the Search Committee. The Membership team promote recruitment, organise Membership events and communicate with Members.

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

Regional Democracy

Members are currently represented across three Society Regions (North, East & West). Regional Members' meetings are usually held and advertised in our stores, on our website and by email. Due to Covid restrictions, one online AGM was held in September 2020 which considered both regional democratic matters and Society wide topics.

Each region is represented by a Regional Committee, and Members who meet the qualifying criteria are elected to the Committees by the Membership at the Members' Regional meetings. Regional Committee Members are elected to serve on the Committees for a period not exceeding three years after which they may stand for re-nomination with elections held at the Annual General Meeting in their region. Regional Committees are also responsible for the nomination of Directors, from within their Regional Committee, to represent the Members for that region. Uncontested elections were held for Regional Committee places in 2020. On an annual basis each Regional Committee conducts an annual planning and evaluation review with recommendations discussed by the Search Committee.

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

Board's Role

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

All of the Directors are collectively responsible for the success of the Society, are equally responsible in law for the Board's decisions and are bound by an overriding duty to act in good faith in pursuit of the best interests of the Society as a whole. The Directors have a Code of Conduct which, together with Standing Orders, covers their duties and responsibilities. The Code of Conduct was refreshed in 2020 and Standing Orders updated annually.

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

As part of transitional arrangements previously approved by Members, three long serving Board members retired during 2020 and one Regional Committee member was elected to the Board, temporarily reducing its size to 11 Directors with the intention of returning to 12 Directors at AGM 2021. Directors are nominated by Regional Committee members and elected by Members from the regions they represent. There are no retired or recently retired Board members and no Directors are employed by the Society.

Internal Control Framework

The Board is ultimately responsible for the Society's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Code requires Directors to maintain robust and defensible risk management and internal control systems and to regularly review their effectiveness. The review covers all material controls including financial, operational, compliance and risk management systems. The key elements in the Society's adopted internal control framework which are considered to be appropriate to the current size and complexity of the Society are as follows:

Control Environment

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

Information and Communication

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

Board Committees

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

Audit

The Audit Committee is responsible for the oversight of internal and external audit and monitoring the integrity of financial reporting, internal controls and risk management. The Audit Committee consists of four Directors and it met three times in 2020/21. The President is not a member of the Audit Committee. During the year one of the Committee members retired and was replaced by a newly elected director who is a Fellow of the Chartered Banker Institute.

The Society has an Internal Audit Department reporting directly to the Chief Executive. An annual report for 2020/21 has been produced and audit plan for 2021/22 has been agreed with the Audit Committee. Any control weaknesses identified are highlighted to management and the Audit Committee which monitors Internal Audit activity and ensures that appropriate actions are taken.

The review of Coops UK updated guidance on terms of reference is anticipated in 2021 at which time the current terms of reference agreed by the Board in 2017 will be reviewed. The current terms of reference, include:

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

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

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

Remuneration

The Remuneration Committee consists of 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 AGM. Details of the remuneration of Directors and Management Executive can be found in Note 4 to the financial statements. The salary information in the bandings in Note 4 provides appropriate disclosure of Board and Management Executive remuneration for 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 in addition to member training, succession planning (Board, CEO & Secretary) and oversight of the Society's membership development and community strategy. The Committee consists of four Directors and there have been no changes in Committee composition during the year.

The 2020/21 Board skills evaluation process was undertaken internally by Directors completing a self-assessment questionnaire to enable the evaluation of individual director skills. Directors were also asked to review the operational practices of the Audit Committee and the Directors' individual and collective board skills. The Search Committee reviewed the outcome of the evaluation and concluded that Directors had met their responsibilities and agreed to progress a number of recommendations during 2021.

The results and recommendations arising from the evaluation of the Regional Committee were also reviewed by the Search Committee following its annual planning and evaluation process. Regional Committee Members completed a self-assessment questionnaire seeking opinions on a wide variety of topics in relation to their skills, knowledge and understanding together with the operational aspects of their respective Committees. A number of recommendations will be progressed in 2021.

Fewer training sessions were arranged for Board and Regional Committee Members during the year with communications training delivered on a face to face basis before social restrictions were imposed and online finance training delivered later in the year. Positive feedback on online training was received. As a result, further online sessions have been planned for 2021 with a review of the delivery channels to be undertaken later in the year. As part of the Search Committee's responsibility for succession planning, the Search Committee monitor the average length of service on the Board and the implications on future Board membership of the transition arrangements from the age rule to a Balanced Board approach. The average length of service of the Board is currently seven years. At 2020 AGM the Board thanked three long-serving Directors for their service to the Society and in a stepped transition returning the Board size to 12 members welcomed one new Director to the Board at the AGM and the election of a further Director at AGM 2021 will return the Board to full complement.

For and on behalf of the Board

Harry Cairney
President

John Brodie
Chief Executive Officer

John Dalley
Secretary

31 March 2021

Corporate Social Responsibility

Introduction

As a Co-operative Society we aim to operate our business in line with co-operative values and principles. For consistency Scotmid has continued to report against Co-operatives UK social responsibility indicators which provide a means for measuring this performance. As part of the implementation of Co-operatives UK new Governance we will review these indicators to determine if the basis of reporting should be amended or changed in the future. Scotmid has a diverse range of operations so the current measures are not always readily available or the most relevant for all our individual businesses. To overcome this, estimates are used where appropriate or we use sample data from our food convenience business. This year the pandemic has had a significant impact on all areas of our operations and has impacted on some of the comparisons below. The new government backed Streamlined Energy and Carbon Report is included for the first time and replaced the energy indicator used previously.

Member Economic Involvement

Society Members have a Membership card that is used to vote for local good causes as part of our Community Connect process and is linked to Member only offers. This would normally provide us with some information regarding our members spend in store. The use of this card was suspended during the pandemic as we needed to reduce touch points to limit risk. We are unable to update last year's estimate of a 23% increased spend by members versus non-members as a result.

Member Democratic Participation

222 (2019/20 - 233) Members attended the first ever online Annual General Meeting on the 28 September 2020. This was held to enable the democratic process to continue during the pandemic. Throughout the pandemic, Board and Regional Committee meetings continued to be held as planned ensuring the governance requirements were met.

Colleague and Member Training

This year 16,431 hours of formal colleague training have been provided (2019/20 – 30,077) which was an average 4.2 hours per employee (2019/20 – 7.7). This training included 8,600 hours of e-learning compared to 11,769 hours last year. It was difficult to provide training during the pandemic due to social distancing limitations and also there was a need to prioritise only key training during the year due to the additional staffing pressures arising from events. Training was therefore prioritised and tailored to maximise effectiveness. Webinars have been widely accessed by our central teams as many organisations sought to provide alternative means of communicating but this time has not been captured in the above data.

Board and Regional Committee training was provided through face to face sessions in early 2020 and online later in the year. A reduced number of formal training hours were undertaken during the year - 247 hours, compared with 260 hours in 2019/20. The number of training hours per "active" member remained at 1.1 hours, consistent with 2019/20 (where "active" membership for training purposes has been defined as the number of members attending the AGM). Plans to increase the number of training sessions for 2021/22 have been put in place.

Colleague Injury and Absentee Rates

There were 21 reportable incidents involving colleagues compared to 8 in the prior year. This equates to 0.5% of the average total workforce. There is no clear pattern or reason for this increase in incidents but one possible contributory factor was the higher volume of stock being handled during the peak of the pandemic. The non-reportable accidents recorded decreased to 245 compared to 299 last year however. The non-reportable accidents amount to 6.2% of the average total workforce and combined total of 6.7% (2019/20– 7.7%). We continue to review any patterns that we see arising from these records and are continuing to emphasise the need to record all accidents with our colleagues.

It is clear that Covid has had a significant effect on staff absence this year with 37,859 days lost (2019/20 – 30,490), an average of 7.48 days per employee according to our systems. This will have arisen via actual cases of Covid but also from extensive requirements to isolate or shield. The UK National average was 5.8 days but this is not industry specific and did not include the period covered by the pandemic (Health & Well Being at Work Survey Report March 2020).

Colleague Profile

The pandemic has created a need for more cover which has led to a small increase in average colleague numbers to 3,947 in 2020/21 compared to 3,880 in 2019/20.

The colleague profile by gender at

the year-end was 69% female and 31% male, compared to the profile in 2019/20 which was 71% female and 29% male. This may reflect the background unemployment arising from the pandemic.

Our gender pay gap details will be published and we have steps in place to address this gap.

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

Ethnic Origin	% of workforce
Asian	1.80
Black	0.10
Other	0.60
White	97.50
Total	100.00

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

Customer Satisfaction

We have not been able to monitor customer satisfaction levels as exit survey activity was non-essential and not appropriate during the pandemic. As noted earlier in the report however, we have had unprecedented numbers of customers contacting our customer service team to note their appreciation for our store colleagues during this period.

Ethical Procurement

The majority of the Society's purchases are through the Co-operative buying group known as the Federal Retail Trading Services (FRTS). The Group remain committed to the principles of sound sourcing, animal welfare, food integrity, health and ecological sustainability and publish a sustainability report annually. We have included our Modern Slavery Statement on page 27.

Investment in Community and Co-operative Initiatives

Investment in community activities continued throughout the year, partly funded from income received through the sale of single use carrier bags with a total of £700,000 (2019/20 - £600,000) donated. The Society's focus during the year has been to provide support to those in need during the pandemic and to larger national charities. To provide immediate support to smaller local community groups a Covid Community Fund was formed which enabled donations of product - often difficult to source during the early months - and funding to be provided. Significant donations were made to Fareshare, Retail Trust and Project Wingman (grounded aircrew providing a first class lounge service to NHS staff). In addition, mental health charity SAMH and MIND received funding together with charities supporting the bereaved and Social Bite, a charity supporting the homeless. The Society worked with other independent retail co-operatives to raise funds for NHS Charities together by donating £1 for each festive bouquet of flowers sold over Christmas and for a third year, donations were given to 5 charities supporting the homeless in Scottish cities. A two year partnership with Pancreatic Cancer UK was announced to donate £80,000 to help develop a new generation of research scientists tackling the disease and based at The Beatson Institute in Glasgow. The Society continued its support of the cooperation band, Scotland's most successful brass band, for a third year.

Due to the pandemic, the acceptance of Community Connect cards in store was suspended, however, 12 regional good cause groups shared regional funding totalling £90,000. More detail on of the support given has been provided in the Directors report on pages 3 to 13.

Chest Heart & Stroke Scotland, Northern Ireland and Different Strokes were chosen to partner with the Society during 2019/20 to provide rehabilitation services, purchase new equipment and help to increase awareness of the support available to others who are struggling with the effects of a stroke. Due to the difficulties of fundraising during the pandemic, the partnership was extended and both parties were delighted to have raised £300,000 by November 2020. New charity partners, Childrens Hospices Across Scotland, Northern Ireland Childrens Hospice, Jigsaw and St Oswald's have been chosen for 2021.

Proportion of Waste Recycled/Reused

Our waste continues to be backhauled from our stores and processed for enhanced recycling. Our Head Office and Funeral offices recycle cardboard, paper and plastic through our waste uplift providers. As a result we estimate that we have recycled 5,800 tonnes of waste (2019/20 - 6,400) with a residual 50 tonnes being passed to landfill. Our proportion of waste recycled remains at 99% which is very close to the zero waste target. A new tool has been rolled out to stores this year which helps to manage the initial reduction required to minimise binned waste and the "Too Good To Go" app has been introduced in some new locations. This allows sales of mixed packages of goods due to go out of date.

Streamlined Energy and Carbon Report

ENERGY USAGE (kWh)	UK only (no offshore)
Electricity usage (kWh)	35,945,023
Gas usage (kWh)	6,589,047

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

INTENSITY	
Average number of employees in 2020	3,947
Intensity (Gross tCO2e/average employees)	2.61

Methodology

We have used billing and metering data for all sites. We have one store with a large gap in billing so have estimated from last year's bills and size of store. Our overall approach is intended to align with the GHG Protocol corporate reporting standard.

Energy efficiency action

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

Our long-term programme of energy efficient investment continued but was impacted by the pandemic which slowed some activity due to social distancing requirements. This investment included the installation of replacement refrigeration with systems that use less energy and employ natural refrigerants. We carried out several installations during the year and continue to see the benefit in significantly reduced energy consumption. We also invested in improvements to our monitoring capabilities of heating and refrigeration which enables us to tackle inefficiencies as they arise. Other programmes have included the installation of aerofoils to fridges which significantly improve energy performance and the further roll out of LED lighting. It should also be noted that the closure of Semichem stores in the first wave of the pandemic impacted on energy usage in the year.

Energy procurement and offsetting

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

Modern Slavery statement for financial year 2020/21

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

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

Our business

As a retail co-operative society, our business model has some complexities in that we operate in different sectors. We have multiple suppliers for goods for resale and services. The most significant sector we operate in is food convenience retailing and over 90% of our stock is purchased from the Co-operative Group via our membership of the Federal Retail Trading Services (FRTS) who have ethical buying policies and are leaders in this field. We support Fair Trade directly through local initiatives but also as part of our membership of FRTS. The majority of Semichem's suppliers are high profile manufacturers of brand leading consumer goods who publish extensively on their ethical position.

Our higher risk areas

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

Our policies

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

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

Our suppliers

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

Training

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

For and on behalf of the Board

Harry Cairney
President

John Brodie
Chief Executive Officer

John Dalley
Secretary

31 March 2021

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

Opinion

We have audited the financial statements of Scottish Midland Co-operative Society Limited for the year ended 30 January 2021 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 and related notes, including the accounting policies on pages 31 to 35.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 January 2021 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014.

Basis for opinion

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

Going concern

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

In our evaluation of the Directors' conclusions, we considered the inherent risks to the group's business model and analysed how those risks might affect the group's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

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

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

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

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

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

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

We also performed procedures including:

- identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual account combinations;
- assessing significant accounting estimates for bias.

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

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

The potential effect of these laws and regulations on the financial statements varies considerably.

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

Whilst the Group is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements

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

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

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

Other Information

The Directors are responsible for the other information, which comprises the Directors' Report, Group Five Year Summary and Corporate Social Responsibility Report. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the other information;
- in our opinion the information given in the other information for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Co-operative and Community Benefit Societies Act 2014.

In addition to our audit of the financial statements, the Directors have engaged us to review whether the Corporate Governance Statement on pages 19 to 23 reflects the Society's compliance with the provisions of Co-operatives UK Limited's Co-operative Corporate Governance Code issued in November 2019 ("the Code"). We have nothing to report in this respect.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Society, or returns adequate for our audit have not been received from branches not visited by us; or
- the Society 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 their statement set out on page 18, the Society's Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at frc.org.uk/auditorsresponsibilities.

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

This report is made solely to the Society, as a body, in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and, in respect of the reporting on corporate governance, on terms that have been agreed. Our audit work has been undertaken so that we might state to the Society those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society, for our audit work, for this report, or for the opinions we have formed.

Hugh Harvie
Senior Statutory Auditor

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Saltire Court, 20 Castle Terrace

Edinburgh

EH1 2EG

7 April 2021

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 30 January 2021.

Going Concern

The Group's business activities, together with the factors likely to affect its future development are set out in the Directors Report on pages 3 to 13. The Group continued to be profitable in the period to 30 January 2021 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 £102.9 million and net current assets of £5.3 million. It manages its day to day and medium term funding requirements with a combination of cash balances, an overdraft facility of £4m and a revolving credit facility of up to £40m which is subject to gearing, earnings and capital spend related financial covenants and available until 2025. At the 30 January 2021 the Group had cash balances of £11.2 million and had utilised £35 million (2020: £37 million) of its revolving credit facility.

The global COVID-19 coronavirus pandemic continues to impact all businesses. As a result of the pandemic and the road map out of lock down, there is expected to be some unpredictable variation in the value and timing of cash flows.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements. These forecasts, which include a severe but plausible downside draw on the experience of the Group through the lockdowns of the last financial year which saw increases in local food shopping and the closure of Semichem stores. The downside scenario reflects Scotmid stores continuing to remain open regardless of lockdown conditions, but with trading reverting to pre-Covid levels, a significant contraction in Semichem business reflecting worsening high street conditions and a reduction in rental income from the property portfolio. 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 30 March 2021. 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.

Statement of Accounting Policies
continued

Accounting Date

The accounts are prepared for the 53 weeks to 30 January 2021 (2019 - 52 weeks to 25 January 2020).

Turnover

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

Trading Profit

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

Exceptional Items

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

Investment Income

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

Taxation

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

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

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is also provided on timing differences arising from the revaluation of fixed assets. Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset only if: a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

Tangible Fixed Assets and Depreciation

Tangible fixed assets (excluding investment properties) are held at cost less depreciation and any provision for impairment. No depreciation is provided on freehold land and assets in the course of construction. For all other tangible fixed assets, depreciation is calculated to write down their cost or valuation to their estimated residual values by equal annual instalments over the period of their estimated useful economic lives, which are considered to be: Buildings - 40 years. Plant, transport and fixtures - between 3 and 10 years.

Investment properties are revalued annually and the aggregate surplus or deficit is recognised in the profit and loss account. On disposal of investment properties, any related balance remaining in the non-distributable reserve is transferred to the revenue reserve. Depreciation is not provided in respect of investment properties.

Assets Leased to the Society

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

Goodwill

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

Impairment

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

Assets Leased by the Society

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

Capitalisation of Interest

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

Investments

Equity investments are recognised initially at fair value which is normally the transaction price (but excludes any transaction costs, where the investment is subsequently measured at fair value through the profit and loss account). Subsequently, they are measured at fair value through profit or loss except for those equity investments that are of minimal value and are not publicly traded and whose fair value cannot otherwise be measured reliably which are recognised at cost less impairment until a reliable measure of fair value becomes available.

Funeral Plans and Bonds

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

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

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

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

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

Critical Judgements in Applying the Society's Accounting Policies

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

Cost of Sales

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

Key Sources of Estimation Uncertainty

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

Impairment of Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating entity to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating entity and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £15,302,000.

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 30 January 2021

	notes	2020-21 (53 weeks) total £000	2019-20 (52 weeks) total £000
turnover	1	409,084	384,952
cost of sales		(304,091)	(283,004)
gross profit		104,993	101,948
other income	2	4,256	4,889
net expenses	3	(102,833)	(101,205)
trading profit		6,416	5,632
exceptional items	5	(2,016)	(1,679)
investment property revaluation	10	481	3,022
(loss)/profit on disposal of fixed assets		(258)	657
operating profit		4,623	7,632
net finance charges	6	(1,141)	(1,280)
surplus before distributions		3,482	6,352
distributions			
share interest		(66)	(65)
grants and donations	7	(580)	(607)
surplus before taxation		2,836	5,680
taxation	8	(1,497)	(1,195)
surplus for the financial year		1,339	4,485

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 30 January 2021

	notes	2020-21 (53 weeks) total £000	2019-20 (52 weeks) total £000
surplus for the financial year		1,339	4,485
actuarial losses on defined benefit pension scheme	18	(4,601)	(2,944)
tax relating to components of other comprehensive income	8	977	450
other comprehensive loss for the period		(3,624)	(2,494)
total comprehensive (loss)/income for the period		(2,285)	1,991

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

Group Balance Sheet as at 30 January 2021

	notes	2020-21 £000	2020-21 £000	2019-20 £000	2019-20 £000
fixed assets					
intangible assets	9		15,302		17,193
tangible assets	10		47,044		47,608
investment properties	10		95,847		94,323
investments	11		16,117		15,085
			174,310		174,209
current assets					
stocks - goods for resale		27,097		25,268	
debtors and prepayments	12	12,399		11,542	
cash at bank and in hand		11,198		12,722	
		50,694		49,532	
current liabilities					
amounts falling due within one year					
creditors	13	(45,380)		(43,924)	
net current assets			5,314		5,608
total assets less current liabilities			179,624		179,817
long term liabilities					
amounts falling due after more than one year					
creditors	14		(49,189)		(50,694)
provisions for liabilities					
deferred taxation	8		(480)		(306)
other provisions	15		(2,343)		(1,884)
net assets excluding pension liability			127,612		126,933
pension liability	18		(24,759)		(21,856)
net assets			102,853		105,077
financed by					
share capital	17		6,181		6,120
non-distributable reserve			38,450		37,708
revenue reserve			58,222		61,249
shareholders' funds			102,853		105,077

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

The financial statements of Scottish Midland Co-operative Society Limited were approved by the Board of Directors and authorised for issue on 31 March 2021. They were signed on its behalf by:

Harry Cairney **President**
Jim Watson **Vice President**
John Dalley **Secretary**

Group Statement of Changes In Shareholders Funds
for the year ended 30 January 2021

	notes	share capital £000	non-distributable reserve £000	revenue reserve £000	total £000
at 25 January 2020		6,120	37,708	61,249	105,077
surplus for the financial year		-	-	1,339	1,339
transfer of realised revaluation on disposal of properties		-	261	(261)	-
actuarial losses on defined benefit pension scheme	18	-	-	(4,601)	(4,601)
tax relating to items of other comprehensive income		-	-	977	977
total comprehensive income		-	261	(2,546)	(2,285)
withdrawal of share capital	17	(5)	-	-	(5)
expenses of members capital	17	66	-	-	66
reclassification of revaluation of investment properties		-	481	(481)	-
at 30 January 2021		6,181	38,450	58,222	102,853

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

Group Cash Flow Statement for the year ended 30 January 2021

	notes	2020-21 (53 weeks) £000	2019-20 (52 weeks) £000
net cash flows from operating activities	19	10,845	16,028
cash flows from investing activities			
net proceeds from sale of equipment		11	68
net proceeds from sale of investment properties		1,040	1,483
purchase of investment		(80)	(80)
purchase of investment properties	10	(2,284)	(911)
purchase of equipment	10	(7,149)	(10,531)
interest received	6	54	67
interest paid	6	(168)	(38)
purchase of trading investments		-	(610)
net cash flows from investing activities		(8,576)	(10,552)
cash flows from financing activities			
share interest, grants and donations		(646)	(672)
repayments of borrowings	21	(2,000)	(37,500)
repayments of obligation under finance lease	21	(552)	(512)
proceeds on issue of shares		61	61
new bank loans raised		-	37,500
interest paid		(656)	(801)
net cash flows from financing activities		(3,793)	(1,924)
net (decrease)/increase in cash and cash equivalents		(1,524)	3,552
cash and cash equivalents at beginning of year		12,722	9,170
cash and cash equivalents at end of year	21	11,198	12,722
reconciliation to cash at bank and in hand			
cash at bank and in hand at end of year		11,198	12,722

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

1. turnover	2020-21	2019-20
class of business	(53 weeks) £000	(52 weeks) £000
retail / wholesale	402,761	378,560
property	6,323	6,392
turnover	409,084	384,952

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	2020-21 (53 weeks) £000	2019-20 (52 weeks) £000
personnel costs	59,976	55,753
occupancy costs (excluding depreciation)	14,216	17,624
depreciation of owned assets	7,097	7,528
depreciation of assets held under finance leases	548	587
amortisation of goodwill	1,891	1,877
operating lease rentals - equipment and vehicles	552	577
fees - directors and committee members	199	306
expenses and delegations - directors and committee members	14	22
auditors' remuneration for group accounts	82	78
auditors' remuneration for subsidiary accounts	23	23
auditors' remuneration non-audit	-	1
other expenses	18,235	16,829
	102,833	101,205

Included within occupancy costs and other expenses is £5,055,000 relating to operating lease rentals for land and buildings (2019-20 - £4,983,000).

4. employees	2020-21 total number	2019-20 total number
the average number employed was:		
full time	1,151	1,221
part time	2,796	2,659
	3,947	3,880

the costs incurred in respect of these employees were	£000	£000
wages and salaries	54,929	50,835
social security costs	3,304	3,004
other pension costs	1,743	1,914
	59,976	55,753

During the year the Society received government assistance from the Job Retention Scheme of £2,512,000.

4. employees - continued

directors' emoluments	2020-21 (53 weeks) £000	2019-20 (52 weeks) £000
the total remuneration of the directors for their board and committee duties was		
fees and delegations	130	139

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

	number	number
£1 - £2,500	1	-
£5,001 - £7,500	2	-
£7,501 - £10,000	5	9
£10,001 - £12,500	3	2
£12,501 - £15,000	1	-
£15,001 - £17,500	-	1
£20,001 - £22,500	1	1
	13	13

management executive emoluments	£000	£000
the total remuneration of the management executive was		
wages & salaries	1,419	1,222
taxable benefits	54	54
pension and pension allowance costs	190	176
	1,663	1,452

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

	number	number
£20,001 - £30,000	1	-
£50,001 - £60,000	1	-
£130,001 - £140,000	-	1
£140,001 - £150,000	1	2
£150,001 - £160,000	2	-
£250,001 - £260,000	-	1
£260,001 - £270,000	1	-
£540,001 - £550,000	-	1
£610,001 - £620,000	1	-
	7	5

5. exceptional items

	2020-21 (53 weeks) £000	2019-20 (52 weeks) £000
business integration, disruption and rationalisation costs	2,016	1,679
	2,016	1,679

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

6. net finance charges

	2020-21 (53 weeks) £000	2019-20 (52 weeks) £000
interest payable		
funeral bond interest	837	204
bank overdraft and loan interest	634	764
finance leases	22	37
other interest	7	38
movement in fair value of derivatives	161	-
interest cost on pension scheme liabilities	1,779	2,306
total interest payable	3,440	3,349
less - interest receivable and investment income		
expected return on pension scheme assets	1,408	1,798
unlisted investments	53	53
other interest	1	14
funeral bond interest	837	204
total interest receivable	2,299	2,069
total	1,141	1,280

7. grants and donations

	2020-21 (53 weeks) £000	2019-20 (52 weeks) £000
member relation activities & grants	528	579
donations	52	28
	580	607

8. taxation	2020-21 (53 weeks) £000	2019-20 (52 weeks) £000
8a. profit and loss account and other comprehensive income		
current taxation		
UK corporation tax charge for the year	498	1,169
adjustment in respect of prior years	(153)	(170)
total current taxation	345	999
deferred taxation		
origination and reversal of timing differences	802	302
adjustment in respect of prior years	130	(74)
adjustment due to change of tax rate	220	(32)
total deferred taxation	1,152	196
total profit and loss account taxation charge	1,497	1,195
other comprehensive income items		
deferred tax in current year credit	(977)	(450)

8b. taxation reconciliation

The tax in the profit and loss account for the year is higher (2019-20 higher) than the standard rate of corporation tax in the UK. The difference is explained below.

surplus before tax	2,836	5,680
tax on surplus at standard rate of corporation tax in the UK of 19%		
(2019-20: 19%)	539	1,079
factors affecting current tax charge for the year		
expenses not deductible for tax	32	127
net depreciation and capital allowances	(36)	244
income not taxable	(36)	(407)
effects of group relief/other relief	(1)	-
gains/rollover relief	-	126
adjustment from prior periods	(153)	(170)
current tax in year	345	999
factors affecting deferred tax charge for the year		
expenses not deductible for tax	270	(292)
adjustment from prior periods	130	(74)
effects of tax rate changes	220	(31)
movement in unrealised gains on investment properties	532	593
deferred tax movement in year	1,152	196
tax charge for the year	1,497	1,195

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 fees; pension costs; depreciation; intangible fixed asset write down and capital allowances.

expenses not deductible for tax

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

sale of property

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

indexation allowance

Indexation allowance, frozen from January 2018, is an allowance for inflation of capital gains. In calculating any corporation tax due on properties and other fixed assets, the Society is able to increase its cost for tax purposes for inflation from the date of acquisition. The indexation allowance in the year relates to estimated indexation on investment properties not yet sold and indexation on properties sold in the year.

change in tax rates

Finance Act 2016 had previously enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020 and accordingly the deferred tax at 25 January 2020 had been calculated at this rate. However, in the March 2020 budget it was announced that the reduction will not occur and the Corporation Tax Rate will be held at 19%. The Provisional Collection of Taxes Act was used to substantively enact the revised 19% tax rate on 17 March 2020 and accordingly the deferred tax balances have been re-calculated to 19% at the year end.

The March 2021 budget announced a further increase to the main rate of corporation tax to 25% from April 2023. This rate has not been substantively enacted at the balance sheet date and as a result, deferred tax balances as at 30 January 2021 continue to be measured at 19%. If all of the deferred tax was to reverse at the amended 25% rate the impact on the closing DT position would be to increase the deferred tax liability by £148,393.

adjustments to tax in respect of prior years

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

other

The deferred tax provision includes a calculation on the pension deficit in the scheme recognised in the Society accounts and the element of Asset Backed Funding (ABF) contribution not yet tax deductible. The deficit recognised by the Society of £17,124,000 (2019-20 - £13,712,000) is lower due to the different accounting treatment of the ABF arrangement in the Society and these group accounts and will unwind in 2032 when the arrangements ends.

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

tax policy and strategy

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

8c. deferred taxation	2020-21 £000	2019-20 £000
deferred tax		
provision at beginning of year	(306)	(559)
adjustment in respect of prior years	(130)	74
deferred tax charge to income statement in the period	(1,021)	(271)
deferred tax charge to other comprehensive income statement in the period	977	450
deferred tax provision at the end of the year	(480)	(306)
deferred tax assets/(liabilities)		
fixed asset timing differences	(4,694)	(3,578)
short term timing differences	3,623	2,743
losses	591	529
deferred tax provision at the end of the year	(480)	(306)

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

Within fixed asset timing differences there is a deferred tax liability of £4,858,000 (2019-20 - £3,727,000).

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	59	326
recoverable after 12 months	4,319	3,095
deferred tax assets	4,378	3,421
deferred tax liabilities		
payable within 12 months	(8)	-
payable after 12 months	(4,850)	(3,727)
deferred tax liabilities	(4,858)	(3,727)

9. intangible assets

goodwill	cost	amortisation	balance sheet value
	£000	£000	£000
at the beginning of the year	52,813	(35,620)	17,193
amortisation provided for the year	-	(1,891)	(1,891)
at the end of the year	52,813	(37,511)	15,302

10. tangible fixed assets

	land & buildings £000	investment properties £000	plant vehicles & fixtures £000	total £000
cost or valuation				
25 January 2020	30,513	94,323	126,487	251,323
additions	726	2,284	6,423	9,433
disposals	-	(1,141)	(2,043)	(3,184)
reclassification	100	(100)	-	-
revaluation	-	481	-	481
30 January 2021	31,339	95,847	130,867	258,053
depreciation				
25 January 2020	14,743	-	94,649	109,392
provided for the year	739	-	6,906	7,645
disposals	-	-	(1,875)	(1,875)
30 January 2021	15,482	-	99,680	115,162
balance sheet value at 25 January 2020	15,770	94,323	31,838	141,931
balance sheet value at 30 January 2021	15,857	95,847	31,187	142,891

The net book value of the group's fixed assets includes £1,262,000 (2019-20 - £1,858,000) 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 30 January 2021 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 £17,200,000 (2019-20 - £17,079,000) 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.

11. investments

	long term 2020-21 £000	current 2020-21 £000	total 2020-21 £000	long term 2019-20 £000	current 2019-20 £000	total 2019-20 £000
funeral bond investment	13,348	1,093	14,441	12,500	994	13,494
unlisted investments						
Co-operative Group shares	1,341	-	1,341	1,341	-	1,341
other C & CB Societies	2	-	2	2	-	2
others	343	-	343	258	-	258
joint ventures	(16)	-	(16)	(16)	-	(16)
	1,670	-	1,670	1,585	-	1,585
listed investments						
others	6	-	6	6	-	6
	15,024	1,093	16,117	14,091	994	15,085

	funeral bond investments £000	unlisted investments £000	listed investments £000	total £000
cost or valuation				
balance sheet value at 25 January 2020	13,494	1,585	6	15,085
additions	1,131	85	-	1,216
disposals	(1,021)	-	-	(1,021)
interest gain	837	-	-	837
balance sheet value at 30 January 2021	14,441	1,670	6	16,117

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 30 January 2021 was £30,000 (2019-20 - £31,000) and therefore the fair value would add £25,000 (2019-20 - £26,000) if restated.

The Group's significant subsidiary undertakings include the retail activities of Botterills Convenience Stores Limited, Trade Smart Marketing Limited, the pension activities of Scotmid Pension (GP) Limited, Scotmid Pension (IP) Limited, Scotmid Pension Limited Partnership and Scotmid Property & Services Limited which holds the employee share ownership plan. The net assets and activities of the subsidiary undertakings are included in these Group accounts. The Group has a shareholding in The Start-Up Drinks Lab Limited a drink manufacturer, registered address Unit 4, Building D, Kelburn Business Park, Port Glasgow, and in Product Guru an online supplier/customer interface.

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

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

11. investments - continued

	Scotmid - Miller (Great Junction Street) 2020-21 £000	2019-20 £000
gross assets	6	6
gross liabilities	(22)	(22)
net liabilities	(16)	(16)
net investment	(16)	(16)

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

12. debtors and prepayments due within one year	2020-21 £000	2019-20 £000
trade debtors	987	815
prepayments and other debtors	11,364	10,727
corporation tax recoverable	48	-
	12,399	11,542

13. creditors falling due within one year	2020-21 £000	2019-20 £000
trade creditors	19,386	19,977
holiday pay	565	365
VAT	2,671	2,109
funeral bond deferred income	1,168	1,117
other sundry creditors	3,074	4,964
accrued charges	17,384	13,652
PAYE and social security	811	693
obligations under finance leases (see note 14)	321	525
corporation tax payable	-	522
	45,380	43,924

14. creditors falling due after more than one year	2020-21 £000	2019-20 £000
bank loans	35,000	37,000
obligations under finance leases	218	566
funeral bond deferred income	13,971	13,128
	49,189	50,694
borrowings are repayable as follows:		
bank loans		
between one and two years	750	-
between two and five years	34,250	2,250
after five years	-	34,750
	35,000	37,000
	35,000	37,000
finance leases		
between one and two years	218	320
between two and five years	-	246
	218	566
on demand or within one year	321	525
	539	1,091
funeral bond deferred income		
between one and two years	1,168	1,117
between two and five years	3,504	3,351
after five years	9,299	8,660
	13,971	13,128
on demand or within one year	1,168	1,117
	15,139	14,245
total bank loans, deferred income, and finance leases excluding bank overdraft		
between one and two years	2,136	1,437
between two and five years	37,754	5,847
after five years	9,299	43,410
	49,189	50,694
on demand or within one year	1,489	1,642
	50,678	52,336

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

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

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

HSBC were appointed in March 2019 with funding covering 5 years with an option to extend for 2 further years. The facility includes a £40,000,000 Revolving Credit Facility and a £4,000,000 Overdraft. The first extension was granted by HSBC in March 2020 and we are in discussions with HSBC regarding the further year extension. At year end a loan balance of £35,000,000 (2019-20: £37,000,000) existed. Gross borrowing to net assets, Minimum EBITDA, and Capital Expenditure are covenants associated with the facility. Interest rate is LIBOR plus 1.05% during the year.

15. provisions

	£000
25 January 2020	(1,884)
additions	(599)
utilised	140
30 January 2021	(2,343)

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

16. derivatives

	2020-21 £000	2019-20 £000
derivative financial instruments held to manage interest rates		
interest rate derivatives (at fair value)	(189)	(24)

The Society's interest rate derivatives with a value of £15,000,000 have been taken out with HSBC to hedge interest rate risk on the bank loan and are measured at fair value using mark to market price at each reporting date. The resulting gain or loss is recognised in the profit and loss account. The Society does not enter into derivatives for speculative purposes. These derivatives mature between March 2023 and March 2025

17. share capital

	2020-21 £000	2019-20 £000
at beginning of year	6,120	6,059
interest	66	65
	6,186	6,124
contributions	80	78
	6,266	6,202
withdrawals	(85)	(82)
at end of year	6,181	6,120

(i) share capital comprises 6,181,000 shares (2019-20 - 6,120,000) of £1 attracting interest at 1.25% (2019-20 1.25%).
(ii) shares are withdrawable on periods of notice in accordance with the Society's Rules (Rule 13), however, the Directors retain the right to refuse redemption.
(iii) each member is entitled to one vote, regardless of the number of shares held.

18. accounting for pension costs

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

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

18. accounting for pension costs - continued

The most recent full actuarial valuation was carried out at 28 January 2017. Work on the valuation of the scheme as at 25 January 2020 has commenced and experience gains and losses identified during the work on the 2020 valuation have been incorporated into the FRS102 valuation. Any changes to the funding plan agreed after the 2020 valuation has been completed will be reported in the next year financial statements. The actuarial valuation method used was the projected unit method. Additional annual contributions of £312,500 until 2026, 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 30 January 2021**	**at 25 January 2020**
rate of increases in pensions accrued post 05/04/97		LPI 5% (RPI)	2.90%	2.80%
		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)	2.40%	1.85%
discount rate			1.60%	1.75%
inflation assumption			3.00%	2.85%
life expectancy retiring today	male		86.1 years	85.1 years
	female		88.0 years	88.8 years
life expectancy in 20 years	male		87.6 years	86.8years
	female		89.5 years	90.4 years

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

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% (2019 - 0.3%) and the actuary has estimated that the impact of the change in the IRP applied when setting the RPI assumptions is expected to be a 1% (@ £1m) increase in the defined benefit obligation.

For CPI, the actuary has proposed reducing the long term gap between RPI and CPI from 1% to 0.6% compared to the prior year. The actuary has estimated that the impact of the change in the best estimate RPI-CPI wedge applied when setting the CPI assumption is expected to be a 2-3% (@ £2m-£3m) increase in the defined benefit obligation.

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

	2020-21	**2019-20**
	£000	**£000**
current service cost	1,290	1,556
net interest cost	371	508
	1,661	2,064

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

	at 30 January 2021	**at 25 January 2020**
present value of defined benefit obligations	(102,970)	(100,494)
fair value of scheme assets	78,211	78,638
deficit	(24,759)	(21,856)
net liability recognised in the balance sheet	(24,759)	(21,856)

Seaton Valley Co-operative Society Ltd shared a funded defined pension scheme with Allendale Co-operative Society Ltd. Additional contribution payments made by Scotmid towards the opening deficit based on the present value at time of merger have moved the balance into a surplus of £53,000 in the year, £32,000 surplus in prior year.

18. accounting for pension costs - continued

analysis of the movement in the scheme deficit in the year	2020-21 £000	2019-20 £000
opening deficit in the scheme	(21,888)	(19,206)
current service cost	(1,290)	(1,556)
contributions	3,338	2,326
net financing charge	(371)	(508)
actuarial loss	(4,601)	(2,944)
closing scheme deficit	(24,812)	(21,888)
Seaton Valley & Allendale Society pension surplus	53	32
total deficit	(24,759)	(21,856)

reconciliation of present value of scheme liabilities	£000	£000
opening defined benefit obligation	100,494	86,053
service cost	1,290	1,556
interest cost	1,779	2,306
contributions by employees	736	724
actuarial loss	1,767	13,403
benefits paid	(3,075)	(3,486)
contribution towards Seaton Valley pension fund	(21)	(62)
closing defined benefit obligation	102,970	100,494

reconciliation of present value of scheme assets	£000	£000
opening fair value of the scheme assets	78,638	66,817
expected return	1,408	1,798
actuarial (loss)/gain	(2,834)	10,459
contributions by employer	3,338	2,326
contributions by employees	736	724
benefits paid	(3,075)	(3,486)
closing fair value of the scheme assets	78,211	78,638

analysis of the fair value of scheme assets at the balance sheet date was as follows	£000	£000
equities	36,135	32,849
other	1,112	1,848
asset backed funding arrangement contribution	969	969
buy-in	17,619	21,590
liability driven investment	22,376	21,382
total market value of assets	78,211	78,638

In setting the expected return on the assets as at 30 January 2021, we have taken into account the yields on government bonds and quality corporate bonds and the advice of Mercer's in-house investment consultancy practice.

18. accounting for pension costs - continued

amounts taken to the consolidated statement of comprehensive income	2020-21 £000	2019-20 £000
actual return less expected return on pension scheme assets	(2,834)	10,459
experience gains arising on the scheme liabilities	4,788	407
changes in assumptions underlying the value of scheme liabilities	(6,555)	(13,810)
actuarial loss before tax adjustments	(4,601)	(2,944)

19. cash flow statement : reconciliation of surplus for the year on ordinary activities to net cash inflow from operating activities	2020-21 £000	2019-20 £000
operating profit	4,623	7,632
adjustment for		
gain on investment properties	(481)	(3,022)
loss/(surplus) on disposal of fixed assets	258	(657)
depreciation charges	7,645	8,115
impairment of fixed and other assets	-	836
amortisation of goodwill	1,891	1,877
increase in stocks	(1,829)	(434)
(increase)/decrease in debtors	(809)	983
increase in creditors and other provisions	2,531	2,362
movement in pension liability	(2,069)	(832)
corporation tax paid	(915)	(832)
net cash inflow from operating activities	10,845	16,028

20. cash flow statement: reconciliation of net cash flow to movement in net debt	2020-21 £000	2019-20 £000
(decrease)/increase in cash for year	(1,524)	3,552
cash outflow from change in net debt and lease financing	2,552	512
movement in net debt for the year	1,028	4,064
opening net debt	(25,369)	(29,433)
closing net debt	(24,341)	(25,369)

cash flow statement: analysis of net debt

	at 25 January 2020 £000	cashflow £000	other non-cash changes £000	at 30 January 2021 £000
cash at bank and in hand	12,722	(1,524)	-	11,198
debt due after 1 year	(37,000)	-	2,000	(35,000)
debt due within 1 year	-	2,000	(2,000)	-
finance leases repaid	(1,091)	552	-	(539)
	(38,091)	2,552	-	(35,539)
total	(25,369)	1,028	-	(24,341)

22. operating lease commitments

	land & buildings 2020-21 £000	plant, vehicles & fixtures 2020-21 £000	land & buildings 2019-20 £000	plant, vehicles & fixtures 2019-20 £000
leases which expire				
within one year	990	41	558	53
within two to five years	6,373	880	6,666	939
after five years	12,360	-	16,178	-
	19,723	921	23,402	992

At 30 January 2021 the commitment to make total future minimum lease payments in respect of operating leases is shown above.

23. related parties

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

Board Members

Board Directors	Board	General Purposes	Audit	Remuneration	Search
Mr H Cairney (P)	13	(C) 4			(C) 4
Mr J Watson (VP)	13	4		(C) 2	
Mr A Clark Hutchison (E 28/9/20)	4				
Mrs S Downie †	12	4			4
Mr I Gilchrist	13				3
Ms K Harmon	13				4
Dr R McCready	13			2	
Mr J Miller (R 28/9/20) ‡	9			2	
Mr D Paterson	13		3		
Mr M Ross	13		3		
Mr A Simm †	13	4		2	
Mrs G Smallman (R 30/4/20) ‡	2			1	
Mr E Thorn	13		(C) 3		
Miss A Williamson (R 28/9/20) ‡	8	0	2		
Total meetings held	13	4	3	2	4

Meetings held from 26 January 2020 to 30 January 2021
P President | VP Vice President | C Committee Chair | E Elected | R Retired

† Directors whose term of office will complete at AGM 2021 and have been nominated to serve.

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

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

East Regional Committee	
Miss A Williamson (C to 7/5/20) (R 28/9/20) ‡	3
Mr H Cairney (C from 7/5/20)	8
Mr D Paterson (VC from 7/5/20)	8
Mr E Thorn (MS from 7/5/20)	8
Mr A Clark Hutchison	8
Mr C Henderson	7
Mrs N Hill ♦	7
Mrs L Hinds (E 28/9/20)	2
Mr K Kelly ★	8
Mr J McKenzie	7
Mrs R McCabe ♦	8
Mr J Miller (R 28/9/20) ‡	6
Mr B Pottinger (E 28/9/20) ♦	2
Mrs J Reid	8
Mrs G Smallman ‡ (R 30/4/20)	1
Total meetings held	8

West Regional Committee	
Mr A Simm (C) ★♦	8
Mr J Watson (VC)	8
Mr M Ross (MS)	8
Mr S Ballantyne ♦	8
Mr S Curran ♦	8
Mr I Gilchrist	8
Mr J Gilchrist (R 28/9/20) ‡	2
Ms K Harmon	7
Mrs M Kane	8
Mr J Mills ♦	8
Ms M Nolan	7
Mr G Randell ♦	7
Mrs K Scott	7
Ms R Smith	6
Total meetings held	8

North Regional Committee	
Mrs S Downie (C) ★♦	8
Mr A Cullen (VC)	7
Mrs M Smith (MS to 12/11/20) ♦	7
Mrs S McSorley (MS from 12/11/20)	8
Mrs E Farquhar ♦	8
Mrs J Garnes ♦	8
Mr A Hutchison (E 28/9/20)	2
Dr R McCready	8
Mr D Patterson	8
Ms E Pipe	8
Mr A Stokes	8
Mrs D Taylor	6
Total meetings held	8

Meetings held from 26 January 2020 to 30 January 2021
C Committee Chair | VC Vice Committee Chair | MS Minute Secretary | E Elected | R Retired

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

♦ Regional Committee Members whose terms of office will complete in at AGM 2021 and have been nominated to serve on a Regional Committee.

‡ Jim Gilchrist, West Regional Committee Member and former Director retired on 27 April 2020 with the thanks of the Society. Grace Smallman, Director and East Regional Committee member retired on 30 April 2020 while John Miller and Sandra Willamson, Directors and East Regional Committee members retired on 28 September 2020 with the thanks of the Society. Sadly, John Miller passed away shortly after his retirement on 4 November 2020.

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

Scotmid coop