

SCOTSMID MIDLAND CO-OPERATIVE SOCIETY LIMITED

Annual Report & Financial Accounts for year ended 28 January 2023



Turnover
£406m

Trading profit
£3m

Net assets
£122.5m



Scotmid 

OUR CORE PURPOSE:

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

Winter Giving campaign
donated to 100 localised
foodbanks, community
pantries and hubs.

£375k raised for our
charity of the year
partners.

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

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Advisors and Registered Office

Independent Auditor

Anderson Anderson & Brown Audit LLP

Bankers

HSBC UK Bank plc

Solicitors

Anderson Strathern WS

Registered Office

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

Society Registration Number SP2059RS

Board Directors & Management Executive

Board of Directors



Harry Cairney
President



Andrew
Clark Hutchison



Sheila Downie



Iain Gilchrist



Kaye Harmon



Jim Watson
Vice President



Keith Kelly



Richard McCready



David Paterson



Michael Ross



Andy Simm



Eddie Thorn

For Board and
Committee attendance
see pages 56-57

Management Executive



John Brodie
Chief Executive Officer



John Dalley
Chief Financial Officer
& Secretary



Margaret Anne Clark
Head of People &
Performance



Stewart Dobbie
Head of Innovation
& Change



Maurissa Fergusson
Head of Property &
Facilities



Kevin Plant
Head of Food



Karen Scott
Head of Semichem

OVERVIEW



The Directors are pleased to present their report for the financial year ended 28 January 2023.

The Society's trading profit for the 52 weeks ended 28 January 2023 was £3.0m, £2.7m down on last year. After emerging from the pandemic, this was a year dominated by the cost-of-living crisis and escalating business costs, particularly in energy. Household incomes were squeezed reducing consumer demand, there was supply disruption, and inflation caused by the war in Ukraine. The Society has taken action to help mitigate the impact of these significant trading challenges by reducing controllable store costs, maximising sales opportunities and strategic capital investment. Total turnover for 52 weeks was £406m, up £3m on last year. The Society's balance sheet strengthened further with net assets rising to a record level of £122.5m.

Our food convenience business faced the most significant challenges in the year. A number of factors impacted performance including energy costs, food price inflation, pay rate increases and low consumer confidence from the cost-of-living crisis. Semichem made further progress in its recovery from the negative impact of the pandemic and migrated successfully to a new freehold warehouse. Property income grew benefitting from successful rent reviews and the timing of investment property acquisitions and disposals. With the high level of (non-covid related) excess deaths in the final quarter, Scotmid funerals conducted a similar number of funerals as last year, most of which were full service traditional funerals.

The Society continued to deliver community-based funding and support in-line with our core purpose. In addition to community grants and regional Community Connect scheme awards, significant donations were made to several national good causes and local food banks via our Winter Giving campaign. Support for international communities included donations to the DEC humanitarian appeals for Ukraine and the flood in Pakistan. Society members, colleagues and customers raised £375k for our charity partner Children's Hospices Across Scotland (CHAS) in conjunction with Northern Ireland Children's Hospice, Jigsaw and St Oswald's Hospice.

Last year-end, the significant inflationary cost challenges facing the Society were highlighted, but in reality, the background trading environment in 2022 was much more challenging than expected. The prolonged war in Ukraine, post-pandemic global demand, high UK inflation and, especially, the rise in energy costs meant that both businesses and households have faced a cost-of-living crisis. Most of the business cost increases were mitigated, but the energy cost escalation could not be covered by initiatives, especially in an environment where sales growth was challenging. The Society remains cautious in the short-term and has taken further continuous improvement cost base action after the year end. Our balance sheet is stronger than it has been throughout the Society's 163-year history, so guided by our core purpose, this provides the opportunity to seek out longer-term opportunities and navigate carefully through the cost-of-living crisis.



FOOD RETAIL

Our food convenience business faced significant headwinds relative to its strong performance over the last two years. As expected, there was less pandemic local shopping than in early 2021, but the war in Ukraine then triggered high inflation, supply chain issues and a cost-of-living crisis which have also dampened our comparable performance. In the second half of the year there was steady sales value growth compared to pre-crisis sales, but most of this growth was driven by food cost inflation. Like most food retailers, we experienced a reduction in the volume of goods that customers are buying and with the cost-of-living crisis, customers are also choosing to trade down. In response we have done what we can for hard-pressed customers, through an Everyday Value campaign and our prices rising slower than the general rate of food inflation.

In common with many businesses, severe cost inflation pressure on both goods and services has been a particularly acute challenge. There was an exceptional increase in our energy charges, including green energy certification costs. This was despite action taken to reduce underlying consumption and forward hedging the rate increase. We also experienced legacy covid costs, with rates of sickness still higher than before the crisis. Proactive measures were taken to mitigate the impact of these external challenges, including sales initiatives, productivity measures and tight management of controllable costs.

A significant programme of investment was delivered for the longer-term benefit of the store estate. This included the rollout of Electronic Shelf Edge Labels (ESEL) and further investment in environmentally



Above left: The Kitchen counter at the refurbished store at Redburn, Prestonpans.

Top right: A Store Manager explains the advantage of the ESEL system to a customer.

Above left: The rollout of environmentally friendly fridges has continued.

Above right: The Society invested further in Snappy Shopper including a fleet of fully electric vehicles.

friendly fridges, digital screens and other equipment to support the development of our food to go offer. The ESEL project has significantly reduced the pricing and promotional tasks instore and has provided a platform for future innovation. With the continued challenge of rising energy costs, we also invested in the installation of e-charging points in our Snappy Shopper hub stores as well as 22 fully electric branded vehicles.

For the second year we have worked in partnership with Scotland Food & Drink on Scotmid's Scottish Favourites competition to support local Scottish suppliers. The local products, chosen

as winners, will feature in stores throughout the first half of 2023. Government legislation had an impact on six of our Lakes & Dales stores with the introduction of High Fat, Sugar and Salt legislation in England effective from October 2022. We also continued our planning toward implementing the Deposit Return Scheme for Scotland, which is due to come into effect in August 2023.



Examples of investment in the store estate with refits at Portobello (top) and Kilmarnock (right).
Below: The new warehouse at Nairn Road, Livingston



SEMICHEM



In the context of a challenging non-food retail market, with high street footfall gradually recovering but still lower than pre-pandemic levels, Semichem performed well in 2022. Low consumer confidence due to the cost-of-living crisis dampened demand, as disposable income was squeezed by general inflation and soaring energy costs. The aftermath of the pandemic, Brexit and the war in Ukraine also impacted the global supply chain which resulted in driver shortages, longer shipping times and manufacturers passing on rising costs. Through strong cost control, management of key product lines, and driving sales by newness and promotional activity, Semichem combatted these market headwinds successfully.

Christmas trading is very important for the profitability of Semichem. The business had an encouraging performance over the festive period with strong growth compared to last year. External supply issues were still

evident, impacted by the same factors as well as industrial action across many sectors including rail and ports. Despite these external challenges, working closely with suppliers, Semichem maintained strong customer availability for Christmas, by prioritising key categories and seasonal lines to drive sales.

Semichem's programme of investment in the store estate continued with refit works at Portobello, Fraserburgh, Helensburgh, Thurso and Broxburn stores. A significant long-term capital investment in the business was also made, with the acquisition of a new freehold warehouse in Livingston. The fit out started at the end of summer with a four-tier picking tower, warehouse racking and the installation of services. The relocation from the old warehouse commenced in December and was completed successfully by the end of January with minimal disruption to store deliveries.

"A significant long-term capital investment in the business was also made, with the acquisition of a new freehold warehouse in Livingston."

FUNERAL



Scotmid Funerals conducted a slightly lower number of funerals in 2022 than last year. After a reduction in the number of funerals carried out in the first half, the second half included a winter when there were a higher number of non-covid related excess deaths. The demand for our personalised full-service funerals remained very strong but there was also a higher proportion of clients who chose a direct funeral alternative. Our funeral colleagues continued to provide the best funeral possible and a personalised choice in memory of loved ones.

During the year, the transition and implementation of the new Financial Conduct Authority (FCA) funeral plan regulations was completed. A comprehensive set of regulations came into effect in July 2022 covering new and existing plans that we previously sold. Scotmid Funerals changed to become an FCA Authorised

Appointed Representative of Ecclesiastical Planning Services Limited, who act as our Principal. This enables Scotmid to continue to offer new funeral plans while Ecclesiastical manage our existing plans. This was a complex transition with a number of major hurdles to overcome but was completed successfully working under the guidance of our new Principal. With the change over to the new regulations fewer "pre-need" funeral plans were written in the year.

The continuous improvement programme of investment in facilities and services we offer to our clients continued. This included funeral home refurbishments, four new vehicles, further development of our websites and communication via social media.

"Our funeral colleagues continued to provide the best funeral possible and a personalised choice in memory of loved ones."

PROPERTY



Above: A modern block of 12 flats in Glasgow was acquired.

Scotmid's property business made progress in the year, with income benefitting from the timing of investment property acquisitions and disposals alongside some commercial property rent reviews. The cost-of-living crisis, rising interest rates and a weak economic backdrop has had an impact but demand for our residential rental property remained robust.

At the start of the year, residential rental income benefitted from the acquisition of a modern tenement block of 12 two-bedroom flats in Glasgow's west end. This acquisition helped the geographic balance of our residential holdings, which are predominantly in Edinburgh, and a block of flats in Leith was sold later in the year. With strong demand from tenants throughout, our residential properties let well with a low number of voids. Modest rental growth was also achieved up to September 2022, when a freeze on rent increases for existing tenants was introduced by the Scottish Government.

Commercial rental income was marginally ahead of last year, as commercial lettings and lower bad debts balanced off the income forgone from property sales. Two packages of commercial property, mainly comprising higher risk retail assets, were sold and an industrial asset in Blantyre was acquired. The purchase of this 25,000 sqft modern industrial unit, let to a blue-chip tenant, is in-line with our long-term strategy to diversify and improve the quality of our investment property portfolio.

Commercial lease renewals and rent reviews helped to support a small increase (under 1% like-for-like) in our property portfolio's valuation. This was in the context of a softening of the market due to the challenging economic background. Residential values remained stable on a year-to-year basis but are widely predicted to reduce during 2023.

SOCIETY MATTERS & CENTRAL SUPPORT



Scotmid's surplus after tax for the financial year was £1.0m, £3.2m down on last year. Apart from a £2.7m reduction in trading profit, the main reason for a lower surplus this year was a less favourable property revaluation gain. In the current market conditions, a small revaluation gain was a robust result, however the gain of £0.75m was £2.15m less than the exceptional gain of £2.9m delivered last year. Over £13m of significant capital investments (including a new freehold Semichem warehouse) were made for the long-term benefit of the Society. This resulted in a rise of £8.9m in Society debt, with a comfortable level of total debt at the year end back at its pre-pandemic level. The financial market conditions (increase in long term interest rates) and Society contributions resulted in a £12.4m reduction in our pension deficit. Overall, it was therefore a strong year financially for the Society with net assets up by £9.7m, to an all-time Society record level of £122.5m.

The Society has small complementary diversification investments in Product Guru, The Start-Up Drinks Lab (SUDL) and the Alcoholic Water Company (AWC). During the year, Product Guru launched hybrid

huddles and pop-up concept stores to support its technology enabled hybrid mini-trade show business that connects retail buyers with supplier products. SUDL has faced similar challenges to many businesses, caused by significant inflationary pressure. A focus on the innovation manufacturing side of this drink's incubator business saw a strong close to 2022 and a positive trend for 2023. For AWC, the "hard seltzer" product category has not yet grown in the UK like it did in USA, so the business has taken the decision to preserve cash and go into an extended hibernation period, to wait to see how the lower strength alcohol market develops over the next few years.

Central teams provide support to the Society's businesses and are responsible for Society-wide functions. A Scotmid Wellbeing Team has been established to raise awareness of the support available to colleagues for physical, mental and financial health and encourage them to access these services. During the year the team have supported the introduction of virtual menopause cafes, central team drop-in sessions, a children's counselling service and promoted the availability of hardship funding. In celebration of

Above left: A Men's Health awareness day was held at Hillwood House.

Above right: Examples of some of the Wellbeing support material.

Opposite page top left: The rollout of the ESEL project was completed.

Opposite page top right: The Society was awarded Fair Tax status for the eighth successive year.

Opposite page bottom: Graduates of the GROW programme.



International Men's Day in November, a wellbeing awareness campaign focused on men included engagement with 'The Men's Shed' and 'Andy's Man Club', charities, aimed at encouraging men to speak about mental health, within a safe and welcoming space. Throughout the Society, 16 Mental Health First Aiders have been appointed who are trained to provide support and signpost to appropriate help and resources. The Society's work in the wellbeing arena has been recognised externally with the Great British Workplace Wellbeing Award 2022.

Support was also provided to a range of important business development projects including Electronic Shelf Edge Labels, a new food help desk on "The Hive" (our cloud-based platform for sharing data, task and documents), intelligent shelving to combat alcohol theft and the rollout of Teams and Office365. A project to implement a new HR and scheduling software ("myScotmid") also progressed with the launch planned during 2023. In light of the investment made in

technology over the last few years, a more streamlined central support operating model will be introduced in 2023.

Scotmid's President, Harry Cairney, will retire from the Society at the end of April 2023. We would like to record our heartfelt thanks to Harry who has been a dedicated cooperative leader of the Scotmid Board over many years and will be sadly missed. He joined Scotmid in 1994 on the transfer of engagements of Prestonpans Society, he is a Director and an East Regional Committee Member and has been President of the Society since 2014. We would similarly like to thank John Dalley (CFO & Society Secretary) who is also retiring at the end of April. John has been a notable business leader at the forefront of the Society's development over the past 17 years, while supporting the Board and representing Scotmid in the wider coop movement.



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

MEMBERSHIP DEVELOPMENT COMMUNITY & CHARITY ACTIVITY



Membership Development Community & Charity Activity

In-line with our core purpose, the Society delivered community-based funding and support to over 1,100 local groups in the year. Members voted at our OGMs and in-store to decide on the allocation of regional Community Connect funding of £84,000, with the Lakes & Dales winners announced at a Seaton Delaval Arts Centre coffee morning event.

The Society continued support for the cooperation band who had a very successful end to 2022. In November they were crowned Scottish Open Champions and Scotmid's virtual Christmas card featured a festive performance by the band. In conjunction with a number of independent coops, Scotmid also supported Kandoroo whose aim is to empower people in poverty to be able to shop with dignity and respect.

The Scotmid Community Orchard project launched, with community groups applying for funding of up to £200 to create their own micro-orchard. Orchards encourage

communities to work together to improve their local environment, learn new skills and create habitats for wildlife while growing edible produce.

A further donation was made to the Retail Trust, who have been caring for and protecting the lives of people working in retail for 190 years. Support for international communities included donations to the DEC humanitarian appeals for Ukraine and the flood in Pakistan. The Society partnered with the Scottish Government to promote their Campylobacter and cost-of-living campaigns.



Other Community and Charitable Activities

Once again, the Society supported a successful "Winter Giving" campaign. This year it focused on donations to around 100 localised foodbanks, community pantries and hubs. Recipients included Inverkeithing Trust Pantry, Eaglesham Food Parcels, Seaton Delaval Food Hub and Munloch

Care & Share Larder. The Society also made a number of donations to charities (e.g. Cyrenians and Social



Opposite page top:
The launch of the Scotmid
Community Orchard
scheme..

Opposite page insert: Guide
Dogs was chosen as our
charity partner for 2022-23.

Above: £375,000 was raised
for CHAS and associated
regional charities.

Bite's Edinburgh Christmas meal) who provided Christmas meals & gifts of essentials to those experiencing homelessness, isolation or hunger.

In addition, larger charitable donations were made to Poppy Scotland, RNLI and Pancreatic Cancer. Funding was also provided to Cruse Scotland (for their Early Support Service) and to the Scottish SPCA (100 Pet Aid boxes).

Following the decision to extend the partnership until August 2022, the Society was proud to announce that £375,000 was raised for charity partner Children's Hospices Across Scotland (CHAS) in conjunction with Northern Ireland Children's Hospice, Jigsaw and St Oswald's Hospice. Funds raised through the partnership has enabled vital development and expansion of outreach services. Guide Dogs were selected as the Society's charity partner 2022-23. Volunteers have been very enthusiastic, active and visible, at member meetings and in stores.

Political Donations

Donations to the national Co-operative Party amounted to £15,527 and the Scottish Co-operative Party of £15,000.

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

Signed on behalf of the Directors.

Harry Cairney
Society President

COMMUNITY CASE STUDIES

NORTH

Like many great ideas, **Banchory-Devenick School's Fairtrade Tuckshop** started small. They secured a Scotmid grant to get started and have been going from strength to strength ever since. Once a month they go shopping for ingredients at their local store, before doing the baking. They then open the tuck shop every second week.

Initially, fundraising was for the Fairtrade Foundation. They now also fundraise for the Toilet Twinning Scheme, which enables people living in poverty access to lifesaving toilets. They have raised enough money to sponsor not just a toilet, but an entire toilet block at a school in Nigeria!

In November, the 41-student school picked up the award for innovation at the Scottish Fairtrade Awards 2022.

Richard, North Regional Committee, is pictured talking to students about all things fairtrade – from chocolate to footballs!

"The school have woven the understanding of being a global citizen into everyday life at the school. Fairtrade is a fantastic way in which our children witness the little things they do having a positive



impact on other people around the world, and it gives them that sense of worth on an international scale." Alan, Parent Council Chair.



WEST

ViewCare Project, Uddington, runs a foodbank, clothing bank and drop-in café. They have seen demand increase substantially over the last 18 months. The group received £500 in Scotmid vouchers to purchase food and toiletry items. They thanked Scotmid for their continued help and support in tackling poverty in the community.

"We are so grateful to Scotmid for their continued support – and the help we received from staff in the store, especially helping me carry and pack all the items into my small car!" Viewcare Volunteer.

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

LAKES & DALES

In early 2023, **Astley Community High School** in Seaton Delaval launched its new breakfast scheme, offering fresh fruit and a variety of bakery produce to students each morning. The Society supported the project with vouchers to spend in their local store. The initial plan was to run the breakfast scheme until summer 2023 but, given its success, the school now wants to continue it into the new school year and beyond.

Gail, Lakes & Dales panel member, and Sam, Membership and Community Manager, visited the school to hear more about the project.



"We are thrilled with the support. We are already seeing the benefits in the classroom when our students have been able to access something to eat at the start of the day. Thank you to everyone at Lakes & Dales Coop". Angela Hall, Astley Community High School Partnerships and Marketing Officer.



EAST

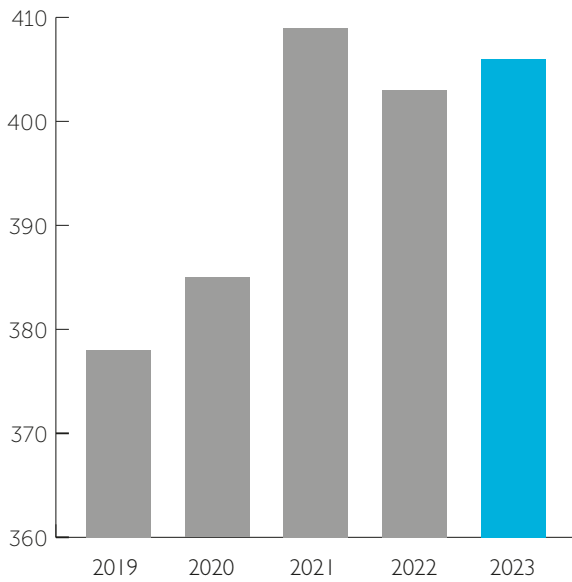
Pentlands Book Festival run free meet and greet events across Edinburgh every year, where audiences can hear directly from the authors themselves, ask questions about their books and listen to readings. The festival was awarded vouchers to purchase Fair Trade wine, which is given to thank authors for providing their time and resources free of charge for local communities. Kenny Boyle, who showcased his debut novel, is pictured.

"The authors were delighted and thoroughly appreciated the wine, again grateful thanks on behalf of the Pentlands Book Festival to Scotmid for its generous continuing support. Support like this allows us to continually offer annual free events which is even more important with the cost-of-living crisis we are all facing." Russell Salton, Volunteer Organiser.

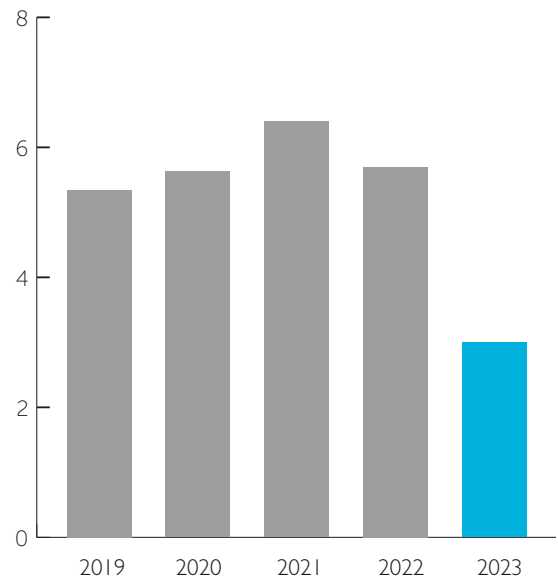
Group Five Year Summary

	2022-23	2021-22	2020-21	2019-20	2018-19
	52 weeks	52 weeks	53 weeks	52 weeks	52 weeks
number of members	159,391	158,155	156,603	155,997	155,343
	£000	£000	£000	£000	£000
turnover	406,482	403,276	409,084	384,952	377,856
trading profit	3,032	5,708	6,416	5,632	5,339
operating profit	3,006	7,439	4,623	7,632	8,291
surplus before taxation	1,759	6,530	2,836	5,680	6,360
surplus for the financial year	1,030	4,235	1,339	4,485	4,485
depreciation and amortisation	10,945	9,855	9,536	9,992	9,815
net finance costs	643	301	1,141	1,280	1,324
purchase of fixed assets	21,874	12,801	9,433	11,548	11,834
fixed assets	171,690	180,998	174,310	174,209	170,369
net current (liabilities)/assets	(252)	(2,327)	5,314	5,608	(31,608)
total assets less current liabilities	171,438	178,671	179,624	179,817	138,761
less long term liabilities	(35,361)	(43,153)	(49,189)	(50,694)	(13,797)
less provision for liabilities and charges	(8,428)	(5,188)	(2,823)	(2,190)	(2,703)
less pension liability	(5,188)	(17,608)	(24,759)	(21,856)	(19,236)
net assets	122,461	112,722	102,853	105,077	103,025
share capital	6,223	6,200	6,181	6,120	6,059
revenue reserves	73,287	65,291	58,222	61,249	62,135
non-distributable reserve	42,951	41,231	38,450	37,708	34,831
shareholders funds	122,461	112,722	102,853	105,077	103,025

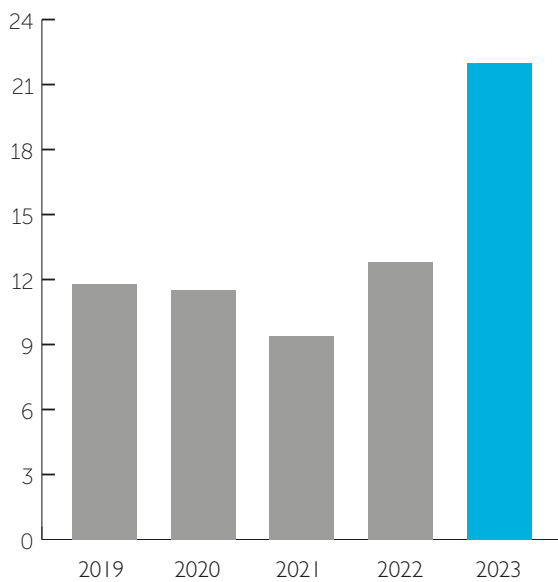
Turnover (£ millions)



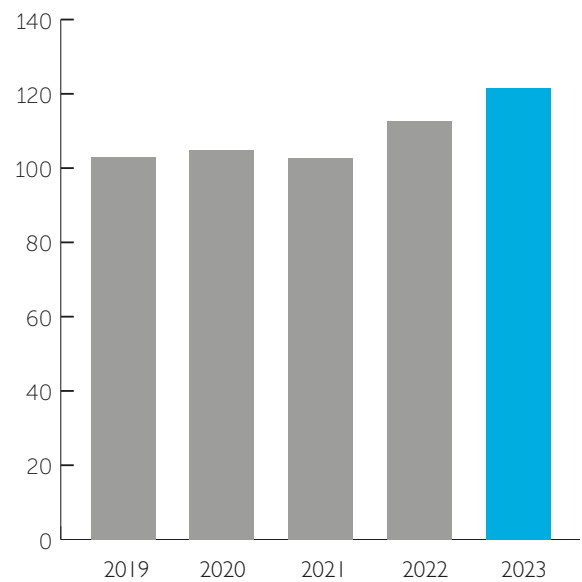
Trading profit (£ millions)



Purchase of fixed assets (£ millions)



Net assets (£ millions)



Statement of directors' responsibilities in respect of the financial statements

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

The Co-operative and Community Benefit Societies Act 2014 requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

In preparing the Group financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that its financial

statements comply with the Co-operative and Community Benefit Societies Act 2014. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Going concern

The Society's business activities, together with the factors likely to affect the future development, performance and position of the Society, are set out in the Directors' Report on pages 3 to 13. The Board remains satisfied with the Society's funding and liquidity position. The Society meets its funding requirements through a combination of a revolving credit facility and an overdraft facility. The overdraft facility is renewable annually in June and the Directors expect this renewal to take place in the normal course of business. The Board has undertaken a thorough review of the Society's financial forecasts and associated risks. These forecasts extend beyond one year from the date of approval of these financial statements and show that the Society will continue to operate within the terms and financial covenants of its bank facilities. Further details on going concern are provided on page 32.

Governance Report

Co-operative Governance Code

The Co-operatives UK Co-operative Governance Code ("The Code") is based on the principles contained in the UK Corporate Governance Code. The Code sets out "a set of principles that all Co-ops can reflect on". The Society substantially complies with the Code but in a limited number of cases where the Society adopts an alternative approach to the new code, the background is explained below. Board Committee Terms of Reference are in-line with the guidance in the previous code and will be reviewed when the new guidance on terms of reference in latest code 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. Following the pandemic in person biannual member meetings have returned and are held in the Society's three regions to encourage attendance and make meetings more accessible to members. Members registered to attend the regional meetings receive an information pack providing further details of the agenda items by post prior to each meeting. In addition, a video montage of updates on awards given to supported Community Connect groups, and funding donated to local communities throughout the year were made available both before and after the meeting.

2) Co-operative Leadership and Purpose:

a) Democratic Governance:

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

b) Member Value Statement:

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

c) Long Term Sustainability:

The Board updated the Society's Blueprint & Vision long-term strategy in December 2021. The Blueprint includes a clear and well communicated core purpose for the Society (to serve our communities and improve people's everyday lives). The Society operates using co-operative values and principles and through the support of our members is able to take a longer-term view on the development of our businesses to ensure long-term sustainability. Our core businesses operate in very competitive markets but provide 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 Society's Blueprint & Vision includes a long-term strategy for the development of the Society's culture. The general aim of the strategy is to build on our strengths with a friendly environment where colleagues can challenge, have self-responsibility and be proud to work for the Society. The four ethical co-operative values of honesty, openness, caring and social responsibility underpin this culture. Within the Society, culture development is facilitated and monitored 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

Governance Report continued

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. The current President will have served his maximum 9 years in the role at AGM 2023 and will retire at that meeting. The Board will thereafter elect a new President.

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

4) Board Composition, Succession and Evaluation:

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

b) Member Training: A comprehensive training programme is offered to all Board and Regional Committee members each year covering a variety of topics which includes training specifically for elected members preparing to join the Board. The training offered is based on the results of the annual evaluation process together with feedback from the Board/Regional Committee members. Although the Society does not provide a programme of training sessions which all Directors must attend, each Regional Committee member must undertake specific training should they wish to progress onto the Board. Additional training was offered during the year to compensate for the reduced amount of training offered during the pandemic. Sessions were conducted both in person and online with new,

bespoke sessions offered in Strategy and Diversity, Equality and Inclusion. Positive feedback was received from the ability to attend in person or online and it was agreed to offer this choice in future.

5) Risk, Financial Management and Internal Control:

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

6) Remuneration of the Board and Executive Leadership:

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

Membership Matters

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

Details of the membership activities

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

Regional Democracy

Members are currently represented across three Society Regions (North, East & West). Regional members' meetings are usually held and advertised in our stores, on our website and by email. Three in-person regional member meetings were held in April 2022 and October 2022 at which both regional democratic matters and Society-wide topics were considered.

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

The Board aims to develop the Society's democratic representation in the Lakes & Dales area. Until an alternative structure is in place, members from the former Penrith Society are part of the West Region and former Seaton Valley Society members, the East Region. Members from those areas are eligible for nomination

and election to serve on those respective Regional Committees representing members from the Lakes & Dales area. The Board agreed that following the success of the trial, the Lakes & Dales Panel which met during the year to allocate Community Grants to groups in that area and to shortlist good cause groups eligible for Community Connect awards be made permanent.

Board's Role

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

All of the Directors are collectively responsible for the success of the Society, are equally responsible in law for the Board's decisions and are bound by an overriding duty to act in good faith in pursuit of the best interests of the Society as a whole. The Directors have a Code of Conduct which, together with Standing Orders, covers their duties and responsibilities. The Code of Conduct was reviewed in 2022 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.

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

Internal Control Framework

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

Control Environment

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

Information and Communication

The Society undertakes periodic strategic reviews which include

Governance Report continued

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 2022-23. The President is not a member of the Audit Committee. Two Committee members are Fellows of the Chartered Banker Institute.

During the year, The Audit Committee undertook a competitive tender process for the Society's external audit. This resulted in a decision to appoint Anderson Anderson & Brown Audit LLP as the Society's new external auditors. At the OGM in 2022, members were informed

that the previous auditors KPMG LLP had resigned and noted the appointment of the new auditors.

The Society has an Internal Audit Department reporting directly to the Chief Executive. An annual report for 2022-23 has been produced and the audit plan for 2023-24 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 awaited. The current terms of reference, include:

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

The Board and Management Executive are responsible for the identification and evaluation of key risks applicable to the Society. These risks may be associated with a variety of internal or external sources, including control breakdowns, credit and liquidity risks, disruption of information systems, competition, natural catastrophes and regulatory requirements. Risk registers are maintained which highlight the

likelihood and impact of risks occurring and indicate if the level of risk is increasing or reducing. These registers are updated at least twice a year and actions necessary to mitigate those risks are considered. The risk registers are consolidated onto a risk assurance map. This process enables resource to be focused on key risk areas, helping to prioritise activities. The Audit Committee reviews the risks facing the Society twice a year to determine if adequate controls are in place. The Audit Committee is also responsible for reviewing the Society's tax policy and strategy on an annual basis.

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

Remuneration

The Remuneration Committee consists of four Directors, none of whom are employees, recently retired employees or the President of the Society. The Committee is proportionate to the size, complexity and risk profile of the Society.

The Committee's role is to ensure that the levels of remuneration and contractual terms of Directors and Executive Leadership team is appropriate and takes into account the responsibilities held and the size, complexity and risk profile of the Society's business 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 benchmarking data is provided through Willis Towers

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

Search

The Search Committee is responsible for monitoring Board and Regional Committee effectiveness, member training, succession planning (Board, CEO & Secretary) and oversight of the Society's membership development and community strategy. The Committee consists of four Directors and no changes were made during the year.

The Board agreed that recommendations resulting from the triennial external evaluation conducted by Glasgow Caledonian University in 2021-22 would be implemented over a period of time. In line with those recommendations, the Board skills self-assessment was further developed and implemented. New training sessions were created and delivered both in-person and online including Strategy and Diversity, Equality and Inclusion training together with core training in Finance, Legal responsibilities and Co-operative Values and Principles. In addition, a number of Board and Committee members attended a conference at New Lanark supported by the Society to celebrate the 250th anniversary

of the birth of Robert Owen, and they also joined celebratory online events with Co-operators in Wales. The Committee also approved an updated and refreshed training plan.

The Committee was pleased with the ongoing development of the member meetings and the trial of an 'information coffee morning' in September for members interested in progressing onto the East Regional Committee. In addition, elected members participated in a short video explaining their reasons for joining the Regional Committee which was issued to all members within that Region prior to nominations being taken at OGM. As a result of that trial the Board agreed to roll out these events across the other regions with a view to encouraging more participation in the democratic process.

In recognition of the ongoing need to further develop membership the Committee agreed to hold trial membership events in early 2023. The Committee also discussed the need to encourage more engagement from younger members and agreed that this matter should be a focus for 2023.

As part of the Committee's responsibility for succession planning the average length of service on the Board was 9 years, within the Society's 9-year balanced board policy. Taking into consideration the resignation of Harry Cairney, Society President at AGM 2023, the Committee reviewed the composition of the Board's Committees and recommended the re-appointment of David Paterson (Audit Committee); the appointment of Andy Simm to the Audit Committee upon completion of his third and final term on the Remuneration Committee in July 2023; the transfer of Jim Watson from Remuneration Committee

to Search Committee Chair following AGM 2023 together with Iain Gilchrist's move from the Search Committee to replace Jim Watson on the Remuneration Committee following AGM 2023. The Committee also agreed the process to recruit a new Society Secretary following John Dalley's decision to retire at AGM 2023.

For and on behalf of the Board

Harry Cairney
President

John Brodie
Chief Executive Officer

John Dalley
Secretary

30 March 2023

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. 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.

The Society has made a firm commitment to moving forward with a sustainable business model and sustainability policies.

In line with ongoing business objectives, a sustainability policy and roadmap has been created to achieve our carbon reduction goals by 2030 with several initiatives both new and ongoing, to meet these.

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

Member Economic Involvement

Society members have a membership card that is used to vote for local good causes as part of our Community Connect process. This provides us with a snapshot of our member's economic involvement but is not a complete picture. It is apparent from this data however that members who choose to use this card are spending more on visits than non-members by 12% on average.

Member Democratic Participation

175 (2021-22 - 215) members attended the Society's first in person Annual General Meeting since the pandemic on 25 and 26 April 2022 while 145 members attended the OGMs on 3 and 4 October 2022.

Colleague and Member Training

The year has seen an increasing in training hours to circa 25,000 (2021-22 - 22,300), largely due to the investment in training provided for the Kickstart candidates. This training included 7,700 hours of e-learning compared to 9,600 last year with the reduction due to some training being delayed to allow for the development of a more interactive, mixed media solution.

Board and Regional Committee training was delivered both in person and online with an increase in the number and variety of training sessions offered including new, bespoke sessions on Strategy and Diversity, Equality and Inclusion in addition to core training covering Co-operative Values & Principles, Legal Responsibilities of a Co-operative Director and Finance. Additional training was delivered during the year (437 hours compared with 273 hours in 2021-22) to compensate for the reduced training given during the pandemic. Training offered was well received and the number of training hours per "active" member increased to 2.5 hours from 1.6 hours in 2021-22 (where "active" membership for training purposes has been defined as the number of members attending the AGM).

Colleague Injury and Absentee Rates

Employee accidents recorded have decreased to 267 this year compared to 325 in 2021-22. These figures are back to the levels we saw prior to the pandemic. We have continued to reinforce our Accident Reporting Campaign (Big or Small; Report them All) and although the figures are back to a 'normal' level, we have evidenced a continual increase in near miss incidents and illness. There were 13 RIDDOR reportable accidents involving colleagues compared to 14 in the previous year. This equates to 0.4% of the average total workforce. Non-RIDDOR reportable accidents amounted to 6.8% of average workforce with a combined total of 7.2% (2021-22 - 8.2%). We continue to review any patterns that we see arising from these records and to focus on prevention.

The absence pattern remains high with around 31,700 days lost (2022-22 - 41,200), an average of 6 days per employee however it has fallen significantly reflecting a reduced impact from Covid.

Colleague Profile

The colleague profile by gender at the year-end was 66% female and 34% male and the average number of colleagues during the year was 3,726. The gender profile in the Society has shifted slightly as we have seen more women leave the Society's employment in proportion to numbers of male employees leaving, partly explained by the closure of some Semichem stores that predominately employ more female colleagues than males.

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

Ethnic Origin	% of workforce 2022-23	% of workforce 2021-22
Asian	3.27	2.70
Black	0.22	0.11
Other	0.79	0.41
White	95.72	96.78
Total	100	100

The ethnic mix of our colleagues is broadly 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 conducted customer surveys this year however we regularly monitor customer feedback to identify any themes we need to address. Customer feedback has remained at a consistent level year on year.

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 £676,000 (2021/22 - £635,000) donated.

Community-based funding and support continued with £50,000

distributed to 97 localised foodbanks, community pantries and hubs. Support for the cooperation band – Scotland's most successful brass band - continued with a final tranche of £15,000 funding to help them become self-funding and a further donation of £20,000 was made to the Retail Trust, who have been caring for and protecting the lives of people working in retail for 190 years. Donations of £10,000 were made to both the DEC Pakistan Flood and Turkey-Syria Earthquake appeals. A further £8,000 was given to Cruse Scotland for their Early Support Bereavement Service which helped 504 recently bereaved people in 2021-22. A donation of £5,000 was given to Scottish SPCA to fund 500 Pet Aid boxes, distributed via foodbanks and The Big House Project, co-ordinated by The Cottage Family Centre, benefitted from a second donation of £10,000 in addition to toiletries and household products. Poppy Scotland also received £15,000 to provide a volunteer shelter for the Edinburgh Princes Street Poppy Appeal and support a number of projects at the Lady Haig Poppy Appeal HQ.

Based on member votes, £84,000 was shared by Community Connect groups in Autumn 2022. The Lakes & Dales Community Connect winners were announced at a Seaton Delaval Arts Centre Coffee Morning. The Society was proud to announce that £375,000 was raised for charity partner Children's Hospices Across Scotland (CHAS) 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. Guide Dogs were selected as the Society's charity partner 2022-23. Volunteers have been very enthusiastic, active and visible, at member meetings and in stores. The Society partnered

with the Scottish Government to promote their Campylobacter and cost of living campaigns. The Scotmid Community Orchard project launched, with community groups applying for funding of up to £200 to create their own micro-orchard. Orchards encourage communities to work together to improve their local environment, learn new skills and create habitats for wildlife while growing edible produce.

Proportion of Waste Recycled/Reused

Our waste continues to be backhauled from our stores and processed for enhanced recycling. Our head office and funeral offices recycle cardboard, paper and plastic through our waste uplift providers. We receive estimated figures for our waste based on a percentage allocation from the Co-op Group who backhaul from food stores and from our waste contractor who handles the other elements of the business. These estimates lead us to report that we have recycled 5,750 tonnes of waste (2021-22 – 6,300) with a residual 36 tonnes being passed to landfill, reduced from 40 tonnes last year. Our proportion of waste recycled remains at 99% which is very close to the zero waste target. Food waste reduction is a key priority. Colleague waste giveaway has been introduced this year with mainly food to go fresh items being offered to store colleagues.

Corporate Social Responsibility continued

Streamlined Energy and Carbon Report

INTENSITY	2022-23	2021-22
All Scopes tCO2 per Colleague	2.19	2.35
% change	-6.8%	-10.0%

ENERGY USAGE (kWh)	Consumption (kWh - 000s)	Consumption (kWh - 000s) (restated to include transportation usage)
Gaseous and other fuels (Scope 1)	5,481	5,807
Transportation Scope	2,385	2,713
Scope 1 Total	7,866	8,520
Scope 2 Total - Grid supplied Electricity	33,733	35,408
Scope 3 Total - Transportation	229	152
Total	41,828	44,080

Location-based Emissions	Consumption (tCO2e)	Consumption (tCO2e)
Gaseous and other fuels (Scope 1)	1,000	1,064
Transportation Scope	568	639
Scope 1 Total	1,568	1,703
Scope 2 Total - Grid Supplied Electricity	6,523	7,526
Scope 3 Total - Transportation	53	35
Total	8,144	9,264

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

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

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

Scope 3 - consumption and emissions cover emissions

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

The volatility of the energy market led the Society to take some difficult decisions around the purchasing of Renewable Energy Guarantees of Origin (REGOs). The REGO market increased exponentially as sellers moved to benefit from the turbulence in the energy sector.

At this time and due to uncertainty, the Society chose not to renew certificates at the end of 2022.

In place of REGOs we have accelerated our progress to access direct renewable energy generation. This will allow the business to receive its energy from

a transparent renewable source with the certification included as part of the agreement.

The integration of this into the current portfolio along with the appointment of a new energy broker will allow the business to have effective and clear monitoring of the energy usage and subsequent emissions output.

Energy usage numbers have continued to decrease in line with investment in energy saving initiatives.

Methodology

This report (including the Scope 1, 2 and 3 consumption and CO2e emissions data) has been developed and calculated using

the GHG Protocol –A Corporate Accounting and Reporting Standard(World Business Council for Sustainable Development and World Resources Institute, 2004);Greenhouse Gas Protocol –Scope 2 Guidance (World Resources Institute, 2015);ISO 14064-1 and ISO 14064-2(ISO, 2018; ISO, 2019a); Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting Guidance (HM Government, 2019). Government Emissions Factor Database 2022 version 1 has been used, utilising the published kWh gross calorific value (CV) and kgCO₂e emissions factors relevant for reporting period.

In the previous years report we had discussed the intention to use both location and market based reporting, however with the changing energy market and incumbent broker advising they were exiting and services would reduce, this has not been possible.

The information has been compiled from half hourly energy meter data for the year for all sites along with fleet usage across the same period. Emissions totals were calculated using the location based method in line with current SECR requirements with gaps in data filled using comparative sizes and industry averages.

Energy efficiency action

The business continues to monitor the investment in low carbon generating technology and enhancement of energy productivity management systems.

The overall reduction of emissions and consumption have been the directive for the last 12 months. During this period, several stores had older refrigerant units replaced with new efficient CO₂

refrigeration as part of the ongoing programme of renewal. The programme of installing aerofoils to existing refrigeration continued and LED lighting replacement was undertaken in a number of stores.

New electric vehicles were introduced to the Snappy Shopper offering and hybrid vehicles into funeral.

We continue the drive with the “too good to go” app in our food offering and also have introduced the colleague waste giveaway scheme to provide surplus food to the staff in store to reduce waste and support our colleagues.

The long term reduction of carbon is mapped through a Sustainability Strategy and Roadmap and includes, but is not limited to, investment in energy measures at store level, through fleet and in the other areas of the business such as charging technology, retrofit of office space and investment in self generating energy.

Next steps to further reduce impact

We are currently working on a plan to apply direct self generating energy to the estate through the installation of solar panels to stores.

This is being measured on a store by store level to ascertain effectiveness and return on investment.

We also have an outline strategy to introduce public charging points to the estate. This model has been fully funded at no cost to the Society but will offer market rate fast and ultra fast charging options to the public.

Modern Slavery statement for financial year 2022-23

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

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

Our business

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

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

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

Corporate Social Responsibility continued

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

Our suppliers

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

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

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

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

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

Risk areas

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

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

- Recruitment policy - we operate a robust recruitment policy; this includes conducting eligibility to work in the UK checks for all colleagues to safeguard against human trafficking.
- Whistleblowing policy and confidential whistleblowing helpline - informing colleagues how to raise concerns about

inappropriate practices within our Society without fear of reprisal.

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

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

Our performance indicators

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

For and on behalf of the Board

Harry Cairney
President

John Brodie
Chief Executive Officer

John Dalley
Secretary

30 March 2023

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

Opinion

We have audited the financial statements of The Scottish Midland Co-operative Society Limited ("the Society") for the year ended 28 January 2023, which comprise the Group profit and loss account, Group statement of comprehensive income, Group balance sheet, Group statement of changes in shareholders' funds and Group Cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 28 January 2023 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the requirements of Co-operative and Community Benefits Societies Act 2014.

Basis of opinion

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

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

Use of our report

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

Conclusions relating to going concern

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

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

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

Other information

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

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

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

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

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

We have nothing to report in these respects.

Directors' responsibilities

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

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' report that includes our

opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

our procedures are capable of detecting irregularities, including fraud is detailed below:

- Management override of controls to manipulate the company's key performance indicators to meet targets
- Compliance with relevant laws and regulations which directly impact the financial statements and those that the company needs to comply with for the purpose of trading

Our audit procedures to respond to these risks included:

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

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial

statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission, or misrepresentation.

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

[www.frc.org.uk/
auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

This description forms part of our Auditors' report.

Andrew Shaw
(Senior Statutory Auditor)

For and on behalf of Anderson
Anderson & Brown Audit LLP
Statutory Auditor
1 Lochrin Square
92 Fountainbridge
Edinburgh
EH3 9QA

31 March 2023

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 28 January 2023.

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 28 January 2023 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 £122.5 million and net current liabilities of £0.3 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 £38.5m which is subject to gearing, earnings and capital spend related financial covenants and available until 2025. At 28 January 2023 the Group had cash balances of £9.9 million and had utilised £34 million (2022: £29 million) of its revolving credit facility.

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

covid pandemic our food business provides an essential service and remained resilient during the crisis.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements. These forecasts, include a severe but plausible increase in costs. Even in these severe downside scenarios the group is forecast to be able to operate within its existing facilities and meet its banking covenants over the going concern assessment period.

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

Basis of Accounting

The Group financial statements were authorised for issue by the Board of Directors on 30 March 2023. The Group financial statements are prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, applicable accounting standards and under the historical cost convention modified to include the revaluation of certain land and buildings, equity investments and financial instruments at fair value. The financial statements are prepared in sterling which is the functional currency of the group and rounded to the nearest £'000.

The principal accounting policies are summarised below and have been applied consistently throughout the current and preceding year. The Society's business activities, together with the factors likely to affect its future prospects, are discussed in the Directors' Report on pages 3 to 13. After making enquiries, the Directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going

concern basis in preparing the accounts, see page 18.

Consolidated Financial Statements

The Group financial statements consolidate the financial statements of Scottish Midland Co-operative Society Limited and all its subsidiaries. Subsidiaries are those entities controlled by the Group. Control exists when the Society has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Accounting Date

The accounts are prepared for the 52 weeks to 28 January 2023 (2021-22 - 52 weeks to 29 January 2022).

Turnover

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

Trading Profit

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

on disposal of fixed assets and investment property revaluation.

Exceptional Items

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

Investment Income

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

Taxation

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

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

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

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

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

Tangible Fixed Assets and Depreciation

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

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

Assets Leased to the Society

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

Goodwill

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

Impairment

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

Statement of Accounting Policies

continued

Assets Leased by the Society

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

Capitalisation of Interest

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

Investments

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

Funeral Plans and Bonds

Within the year, the Society completed a novation of the existing funeral bonds to Ecclesiastical Planning Services Limited in line with FCA requirements. In prior years, amounts received in advance for funeral plans were recorded at fair value within assets and liabilities. Monies were paid into a contract for whole life insurance on the life of the customer for the purpose of providing the funeral, and the current value of these plans at the year-end were disclosed within investments. Changes in fair value were included in the Group Profit and Loss Account. The asset and deferred income liability was apportioned between current and long-term based upon the Group's experience of funerals carried out under its pre-payment plans. Third party funeral bonds are held at fair value with market valuation being provided by Insurer.

Cash and Cash Equivalents

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

Stocks

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

Debtors

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

Financial Instruments

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

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

any hedge accounting transactions.

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

Pension Costs

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

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

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial

valuations are obtained triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability is presented separately after other net assets on the face of the balance sheet.

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

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

Share Based Payment

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

Provisions

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

Grants

During the year, Kickstart Scheme 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. In the prior year, Coronavirus Job Retention Scheme ("JRS") income was received.

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

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

Critical Judgements in Applying the Society's Accounting Policies

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

Cost of Sales

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

Key Sources of Estimation Uncertainty

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

Impairment of Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating entity to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating entity and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £11,754,000.

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 28 January 2023

		2022-23 (52 weeks)	2021-22 (52 weeks)
		total	total
	notes	£000	£000
turnover	1	406,482	403,276
cost of sales		<u>(298,428)</u>	<u>(298,995)</u>
gross profit		108,054	104,281
other income	2	4,285	4,354
net expenses	3	<u>(109,307)</u>	<u>(102,927)</u>
trading profit		3,032	5,708
exceptional items	5	(1,543)	(1,555)
investment property revaluation	10	752	2,900
profit on disposal of fixed assets		<u>765</u>	<u>386</u>
operating profit		3,006	7,439
net finance charges	6	<u>(643)</u>	<u>(301)</u>
surplus before distributions		2,363	7,138
distributions			
share interest		(52)	(54)
grants and donations	7	<u>(552)</u>	<u>(554)</u>
surplus before taxation		1,759	6,530
taxation	8	<u>(729)</u>	<u>(2,295)</u>
surplus for the financial year		<u>1,030</u>	<u>4,235</u>

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

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

Group Statement of Comprehensive Income for the year ended 28 January 2023

		2022-23 (52 weeks)	2021-22 (52 weeks)
		total	total
	notes	£000	£000
surplus for the financial year		<u>1,030</u>	4,235
actuarial gains on defined benefit pension scheme	18	<u>11,675</u>	<u>6,585</u>
tax relating to components of other comprehensive income	8	<u>(2,989)</u>	<u>(970)</u>
other comprehensive gain for the period		<u>8,686</u>	<u>5,615</u>
total comprehensive income for the period		<u>9,716</u>	<u>9,850</u>

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

Group Balance Sheet as at 28 January 2023

	notes	2022-23 £000	2021-22 £000
fixed assets			
intangible assets	9	11,754	13,446
tangible assets	10	55,840	50,156
investment properties	10	102,276	100,022
investments	11	<u>1,820</u>	<u>17,374</u>
		171,690	180,998
current assets			
stocks - goods for resale		24,884	24,300
debtors and prepayments	12	11,790	8,919
cash at bank and in hand		<u>9,907</u>	<u>12,296</u>
		<u>46,581</u>	<u>45,515</u>
current liabilities			
amounts falling due within one year			
creditors	13	<u>(46,833)</u>	<u>(47,842)</u>
net current liabilities		<u>(252)</u>	<u>(2,327)</u>
total assets less current liabilities		171,438	178,671
long term liabilities			
amounts falling due after more than one year			
creditors	14	(35,361)	(43,153)
provisions for liabilities			
deferred taxation	8	(6,398)	(3,050)
other provisions	15	<u>(2,030)</u>	<u>(2,138)</u>
net assets excluding pension liability		127,649	130,330
pension liability	18	(5,188)	(17,608)
net assets		<u>122,461</u>	<u>112,722</u>
financed by			
share capital	17	6,223	6,200
non-distributable reserve		42,951	41,231
revenue reserve		73,287	65,291
shareholders' funds		<u>122,461</u>	<u>112,722</u>

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

The financial statements of Scottish Midland Co-operative Society Limited were approved by the Board of Directors and authorised for issue on 30 March 2023. They were signed on its behalf by:

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

Group Statement of Changes In Shareholders Funds for the year ended 28 January 2023

	notes	share capital £000	non- distributable reserve £000	revenue reserve £000	total £000
at 29 January 2022		6,200	41,231	65,291	112,722
surplus for the financial year		-	-	1,030	1,030
transfer of realised revaluation on disposal of properties		-	968	(968)	-
actuarial gains on defined benefit pension scheme	18	-	-	11,675	11,675
tax relating to items of other comprehensive income		-	-	(2,989)	(2,989)
total comprehensive income		<hr/> -	968	8,748	9,716
withdrawal of share capital	17	(29)	-	-	(29)
expenses of members capital	17	52	-	-	52
reclassification of revaluation of investment properties		-	752	(752)	-
at 28 January 2023		<hr/> 6,223	42,951	73,287	122,461

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

Group Cash Flow Statement for the year ended 28 January 2023

		2022-23 (52 weeks)	2021-22 (52 weeks)
	notes	£000	£000
net cash flows from operating activities	19	7,599	20,272
cash flows from investing activities			
net proceeds from sale of equipment		136	54
net proceeds from sale of investment properties		6,219	748
purchase of investment		-	(350)
purchase of investment properties	10	(6,495)	(1,393)
purchase of equipment	10	(15,379)	(11,408)
purchase of intangible assets	9	(155)	-
interest received	6	549	567
interest paid	6	(4)	(21)
net cash flows from investing activities		<u>(15,129)</u>	<u>(11,803)</u>
cash flows from financing activities			
share interest, grants and donations		(604)	(608)
repayments of borrowings	21	(2,000)	(6,000)
new finance leases	21	1,763	-
repayments of obligation under finance lease	21	(217)	(321)
proceeds on issue of shares		23	19
new bank loans raised		7,000	-
interest paid		(824)	(461)
net cash flows from financing activities		<u>5,141</u>	<u>(7,371)</u>
net (decrease)/increase in cash and cash equivalents		<u>(2,389)</u>	<u>1,098</u>
cash and cash equivalents at beginning of year		12,296	11,198
cash and cash equivalents at end of year	21	<u>9,907</u>	<u>12,296</u>
reconciliation to cash at bank and in hand			
cash at bank and in hand at end of year		<u>9,907</u>	<u>12,296</u>

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

1. turnover	2022-23	2021-22
class of business	(52 weeks)	(52 weeks)
	£000	£000
retail	399,484	396,765
property	6,998	6,511
turnover	<u>406,482</u>	<u>403,276</u>

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

2. other income

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

3. net expenses	2022-23	2021-22
	(52 weeks)	(52 weeks)
	£000	£000
personnel costs	60,159	61,328
occupancy costs (excluding depreciation)	20,235	12,909
depreciation of owned assets	8,812	7,587
depreciation of assets held under finance leases	286	412
amortisation of goodwill	1,847	1,856
operating lease rentals - equipment and vehicles	517	547
fees - directors and committee members	223	336
expenses and delegations - directors and committee members	28	15
auditors' remuneration for group accounts	104	82
auditors' remuneration for subsidiary accounts	15	28
other expenses	17,081	17,827
	<u>109,307</u>	<u>102,927</u>

Included within occupancy costs and other expenses is £4,774,000 relating to operating lease rentals for land and buildings (2021-22 - £4,689,000).

4. employees	2022-23	2021-22
	total	total
	number	number
the average number employed was:		
full time	1,088	1,147
part time	2,638	2,801
	<u>3,726</u>	<u>3,948</u>

the costs incurred in respect of these employees were

	£000	£000
wages and salaries	54,735	56,017
social security costs	3,572	3,332
other pension costs	1,852	1,979
	<u>60,159</u>	<u>61,328</u>

During the year the Society received Government assistance from the Kickstart Scheme of £543,000 (2021-22 - £313,000). In the prior year the Society also received Government assistance through the Job Retention Scheme of £756,000 but repaid £113,000 in relation to the covid restrictions.

Notes to the Group Accounts

4. employees - continued

2022-23
(52 weeks)

2021-22
(52 weeks)

directors' emoluments

£000

£000

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

fees and delegations	145	133
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the number of directors whose emoluments fell into each £2,500 bracket was

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

management executive emoluments

£000

£000

the total remuneration of the management executive was

wages & salaries	1,518	1,707
taxable benefits	51	54
pension and pension allowance costs	231	221
	<u>1,800</u>	<u>1,982</u>

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
£120,001 - £130,000	1	1
£130,001 - £140,000	2	1
£140,001 - £150,000	1	1
£150,001 - £160,000	-	1
£170,001 - £180,000	1	-
£190,001 - £200,000	-	1
£240,001 - £250,000	1	-
£270,001 - £280,000	-	1
£570,001 - £580,000	1	-
£640,001 - £650,000	-	1
	<u>7</u>	<u>8</u>

5. exceptional items	2022-23 (52 weeks) £000	2021-22 (52 weeks) £000
business integration, disruption and rationalisation costs	1,543	1,555
	<u>1,543</u>	<u>1,555</u>

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

6. net finance charges	2022-23 (52 weeks) £000	2021-22 (52 weeks) £000
interest payable		
funeral bond interest	379	576
bank overdraft and loan interest	821	451
finance leases	3	10
other interest	4	21
interest cost on pension scheme liabilities	<u>2,070</u>	<u>1,633</u>
total interest payable	<u>3,277</u>	<u>2,691</u>
less - interest receivable and investment income		
expected return on pension scheme assets	1,706	1,247
unlisted investments	53	53
other interest	1	12
funeral bond interest	379	576
movement in fair value of derivatives	<u>495</u>	<u>502</u>
total interest receivable	<u>2,634</u>	<u>2,390</u>
total	<u>643</u>	<u>301</u>

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

7. grants and donations	2022-23 (52 weeks) £000	2021-22 (52 weeks) £000
member relation activities & grants	531	539
donations	21	15
	<u>552</u>	<u>554</u>

Notes to the Group Accounts

8. taxation	2022-23 (52 weeks) £000	2021-22 (52 weeks) £000
8a. profit and loss account and other comprehensive income		
current taxation		
UK corporation tax charge for the year	388	909
adjustment in respect of prior years	<u>(18)</u>	<u>(214)</u>
total current taxation	370	695
deferred taxation		
origination and reversal of timing differences	595	672
adjustment in respect of prior years	(424)	(150)
adjustment due to change of tax rate	<u>188</u>	<u>1,078</u>
total deferred taxation	359	1,600
total profit and loss account taxation charge	<u>729</u>	<u>2,295</u>
other comprehensive income items		
deferred tax in current year	<u>2,989</u>	<u>970</u>
8b. taxation reconciliation		
The tax in the profit and loss account for the year is higher (2020-21 higher) from the standard rate of corporation tax in the UK. The difference is explained below.		
surplus before tax	<u>1,759</u>	<u>6,530</u>
tax on surplus at standard rate of corporation tax in the UK of 19% (2021-22: 19%)	334	1,241
factors affecting current tax charge for the year		
expenses not deductible for tax	254	131
net depreciation and capital allowances	(13)	(95)
income not taxable	(114)	(418)
gains/rollover relief	(73)	50
adjustment to tax in respect of prior years	(18)	(214)
current tax in year	<u>370</u>	<u>695</u>
factors affecting deferred tax charge for the year		
expenses not deductible for tax	132	105
adjustment from prior periods	(423)	(150)
effects of tax rate changes	188	1,078
movement in unrealised gains on investment properties	462	567
deferred tax movement in year	<u>359</u>	<u>1,600</u>
tax charge for the year	<u>729</u>	<u>2,295</u>

8b. taxation reconciliation - continued

current tax

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

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

change in tax rates

The UK corporation tax rate for the chargeable accounting period ended 28 January 2023 is 19%. Additionally, the UK government announced in March 2021 that the UK corporation tax rate will increase from 19% to 25% from 1 April 2023. The rate increase was substantively enacted on 24 May 2021.

Deferred tax should be measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax disclosures have been prepared on the assumption that the deferred tax balances will unwind at the substantively enacted rate of 25%.

adjustments to tax in respect of prior years

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

other

The deferred tax provision includes a calculation on the pension deficit in the scheme recognised in the Society accounts and the element of Asset Backed Funding (ABF) contribution not yet tax deductible. The surplus recognised by the Society of £1,384,000 (2021-22 - £10,490,000 deficit) is lower due to the different accounting treatment of the ABF arrangement in the Society and these group accounts and will unwind in 2032 when the arrangements ends.

The taxation charge in the other comprehensive income is the deferred taxation (at a rate of 25%) on the actuarial gain on the Society's defined benefit pension scheme.

tax policy and strategy

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

Notes to the Group Accounts

8c. deferred taxation	2022-23 £000	2021-22 £000
deferred tax		
provision at beginning of year	(3,050)	(480)
adjustment in respect of prior years	423	150
deferred tax charge to income statement in the period	(782)	(1,750)
deferred tax charge to other comprehensive income statement in the period	(2,989)	(970)
deferred tax provision at the end of the year	<u>(6,398)</u>	<u>(3,050)</u>
deferred tax assets/(liabilities)		
fixed asset timing differences	(7,653)	(7,161)
short term timing differences	218	3,171
losses	1,037	940
deferred tax provision at the end of the year	<u>(6,398)</u>	<u>(3,050)</u>

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

Within fixed asset timing differences there is a deferred tax liability of £7,746,000 (2021-22 - £7,317,000).

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	114	28
recoverable after 12 months	1,234	4,239
deferred tax assets	<u>1,348</u>	<u>4,267</u>
deferred tax liabilities		
payable within 12 months	-	-
payable after 12 months	(7,746)	(7,317)
deferred tax liabilities	<u>(7,746)</u>	<u>(7,317)</u>

9. intangible assets

goodwill	cost	amortisation	balance sheet value
	£000	£000	£000
at the beginning of the year	52,813	(39,367)	13,446
additions	155	-	155
amortisation provided for the year	-	(1,847)	(1,847)
at the end of the year	<u>52,968</u>	<u>(41,214)</u>	<u>11,754</u>

10. tangible fixed assets

	land & buildings £000	investment properties £000	plant vehicles & fixtures £000	total £000
cost or valuation				
29 January 2022	30,932	100,022	139,675	270,629
additions	3,454	6,495	11,925	21,874
disposals	(823)	(4,993)	(40,586)	(46,402)
reclassification	6	-	(6)	-
revaluation	-	752	-	752
28 January 2023	<u>33,569</u>	<u>102,276</u>	<u>111,008</u>	<u>246,853</u>
depreciation				
29 January 2022	16,067	-	104,384	120,451
provided for the year	715	-	8,383	9,098
disposals	(540)	-	(40,272)	(40,812)
28 January 2023	<u>16,242</u>	<u>-</u>	<u>72,495</u>	<u>88,737</u>
balance sheet value at 29 January 2022	<u>14,865</u>	<u>100,022</u>	<u>35,291</u>	<u>150,178</u>
balance sheet value at 28 January 2023	<u>17,327</u>	<u>102,276</u>	<u>38,513</u>	<u>158,116</u>

The net book value of the group's fixed assets includes £2,338,000 (2021-22 - £850,000) 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 28 January 2023 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 £17,895,000 (2021-22 - £17,906,000) of investment properties held by Scotmid Pension Limited Partnership. These properties provide security for the Asset Backed Funding Arrangement put in place during 2012-13.

Notes to the Group Accounts

	long term	current	total	long term	current	total
11. investments	2022-23	2022-23	2022-23	2021-22	2021-22	2021-22
	£000	£000	£000	£000	£000	£000
funeral bond investment	-	-	-	15,339	-	15,339
unlisted investments						
Co-operative Group shares	1,341	-	1,341	1,341	-	1,341
other C & CB Societies	2	-	2	2	-	2
others	487	-	487	702	-	702
joint ventures	(16)	-	(16)	(16)	-	(16)
	1,814	-	1,814	2,029	-	2,029
listed investments						
others	6	-	6	6	-	6
	1,820	-	1,820	17,374	-	17,374

	funeral bond investments £000	unlisted investments £000	listed investments £000	total £000
cost or valuation				
balance sheet value at 29 January 2022	15,339	2,029	6	17,374
additions	219	-	-	219
disposals	(582)	(215)	-	(797)
interest gain	379	-	-	379
transfer of engagements	(15,355)	-	-	(15,355)
balance sheet value at 28 January 2023	-	1,814	6	1,820

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 28 January 2023 was £35,000 (2021-22 - £32,000) and therefore the fair value would add £30,000 (2021-22 - £27,000) if restated.

The group's significant subsidiary undertakings include the retail activities of Botterills Convenience Stores Limited, Trade Smart Marketing Limited, the pension activities of Scotmid Pension (GP) Limited, Scotmid Pension (IP) Limited, Scotmid Pension Limited Partnership and Scotmid Property & Services Limited which holds the employee share ownership plan. The net assets and activities of the subsidiary undertakings are included in these Group accounts. The Group has shareholdings in The Start-Up Drinks Lab Limited (a drink manufacturer, registered address Unit 4, Block D, Kelburn Business Park, Port Glasgow), The Alcoholic Water Company Limited (a drink manufacturer, registered address Unit 5, Block D, Kelburn Business Park, Port Glasgow), and in Product Guru, an online supplier/customer interface.

In prior years FRS102 required financial investments to be recognised and funeral bonds with third parties to be included above. The funeral bonds were held at fair value with market valuation being provided by the insurer. However, following FCA regulation these are now held by a third party and are not included within the balance sheet.

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)	
	2022-23	2021-22
	£000	£000
gross assets	6	6
gross liabilities	(22)	(22)
net liabilities	(16)	(16)
net investment	(16)	(16)

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

	2022-23	2021-22
	£000	£000
12. debtors and prepayments due within one year		
trade debtors	456	685
prepayments and other debtors	11,192	8,234
corporation tax recoverable	142	-
	<u>11,790</u>	<u>8,919</u>

	2022-23	2021-22
	£000	£000
13. creditors falling due within one year		
trade creditors	20,583	20,019
holiday pay	556	535
VAT	1,750	861
funeral bond deferred income	-	1,219
other sundry creditors	6,002	6,033
accrued charges	16,041	17,153
PAYE and social security	1,498	1,530
obligations under finance leases (see note 14)	403	218
corporation tax payable	-	274
	<u>46,833</u>	<u>47,842</u>

Notes to the Group Accounts

	2022-23 £000	2021-22 £000
14. creditors falling due after more than one year		
bank loans	34,000	29,000
obligations under finance leases	1,361	-
funeral bond deferred income	-	14,153
	<u>35,361</u>	<u>43,153</u>
borrowings are repayable as follows:		
bank loans		
between one and two years	-	-
between two and five years	34,000	29,000
	<u>34,000</u>	<u>29,000</u>
finance leases		
between one and two years	427	-
between two and five years	934	-
	<u>1,361</u>	<u>-</u>
on demand or within one year	403	218
	<u>1,764</u>	<u>218</u>
funeral bond deferred income		
between one and two years	-	1,219
between two and five years	-	3,657
after five years	-	9,277
	<u>-</u>	<u>14,153</u>
on demand or within one year	-	1,219
	<u>-</u>	<u>15,372</u>
total bank loans, deferred income, and finance leases excluding bank overdraft		
between one and two years	427	1,219
between two and five years	34,934	32,657
after five years	-	9,277
	<u>35,361</u>	<u>43,153</u>
on demand or within one year	403	1,437
	<u>35,764</u>	<u>44,590</u>

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

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

In the prior year, third party funeral bonds were held at fair value with market valuation being provided by Insurer. Scotmid funeral bonds were assessed to provide an expected return of the average cost of a funeral with interest applied and recognised through the profit and loss account. During the year the Society transitioned and became an appointed representative of Ecclesiastical Planning Services Limited who now manage all plans. Following novation, balances relating to funeral plans do not show as investments or liabilities on the Society balance sheet.

HSBC were appointed in March 2019 with funding covering 5 years with an option to extend for 2 further years. The facility includes a £38,500,000 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 £34,000,000 (2021-22: £29,000,000) existed. Gross borrowing to net assets, Minimum EBITDA, and Capital Expenditure are covenants associated with the facility. Interest rate is SONIA plus a margin between 1.05% and 1.2% during the year.

15. provisions	£000
29 January 2022	(2,138)
additions	(73)
utilised	181
28 January 2023	<u>(2,030)</u>

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

16. derivatives	2022-23	2021-22
	£000	£000
derivative financial instruments held to manage interest rates		
interest rate derivatives (at fair value)	<u>808</u>	<u>313</u>

The Society's interest rate derivatives with a value of £18,000,000 have been taken out with HSBC to hedge interest rate risk on the bank loan and are measured at fair value using mark to market price at each reporting date. The resulting gain or loss is recognised in the profit and loss account. The Society does not enter into derivatives for speculative purposes. These derivatives mature between March 2023 and March 2025.

17. share capital	2022-23	2021-22
	£000	£000
at beginning of year	6,200	6,181
interest	<u>52</u>	<u>54</u>
	6,252	6,235
contributions	<u>78</u>	<u>83</u>
	6,330	6,318
withdrawals	(107)	(118)
at end of year	<u>6,223</u>	<u>6,200</u>

(i) share capital comprises 6,223,000 shares (2021-22 - 6,200,000) of £1 attracting interest at 1% (2021-22 1%).

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

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

18. accounting for pension costs

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

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

18. accounting for pension costs - continued

The most recent full actuarial valuation was carried out at 25 January 2020. The actuarial valuation method used was the projected unit method. Additional annual contributions of £312,500 until 2026, reducing to £302,000 until 2032, in addition to the £969,000 asset backed funding arrangement through to 2032, have been agreed between the Society and the Pension Trustees.

the major assumptions used by the actuary were		at 28 January 2023	at 29 January 2022
rate of increases in pensions accrued post 05/04/97	LPI 5% (RPI)	2.90%	3.40%
	LPI 2.5% (RPI)	2.00%	2.20%
rate of increase in deferred pensions	LPI 2.5% (RPI)	2.50%	2.50%
rate of increase in deferred pensions	LPI 2.5% (CPI)	2.50%	2.50%
discount rate		5.00%	2.10%
inflation assumption		3.20%	3.60%
life expectancy retiring today	male	86.1 years	86.1 years
	female	88.1 years	88.0 years
life expectancy in 20 years	male	87.7 years	87.6 years
	female	89.7 years	89.6 years

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

The actuary has proposed that RPI inflation continues to be set in line with market break-even expectations less an inflation risk premium. The inflation risk premium has been set at 0.2% (2021-22: 0.2%) and the actuary has estimated, for illustration purposes, that the impact of a reduction in IRP of 0.1% p.a. when setting the RPI assumptions would be expected to be around a 1% (@ £1m) increase in the defined benefit obligation.

For CPI, the actuary has proposed changing the long term gap between RPI and CPI to 0.5% (0.6%; 2021-22). The actuary has estimated, for illustration purposes, that the impact of a reduction of 0.1% p.a. in the best estimate RPI-CPI wedge applied when setting the CPI assumption would be expected to be less than a 1% (@ £1m) increase in the defined benefit obligation.

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

	2021-22 £000	2020-21 £000
current service cost	1,339	1,490
net interest cost	364	386
	<u>1,703</u>	<u>1,876</u>

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

	at 28 January 2023	at 29 January 2022
present value of defined benefit obligations	(66,386)	(98,885)
fair value of scheme assets	61,198	81,277
deficit	<u>(5,188)</u>	<u>(17,608)</u>
net liability recognised in the balance sheet	<u>(5,188)</u>	<u>(17,608)</u>

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

18. accounting for pension costs - continued	2022-23	2021-22
analysis of the movement in the scheme deficit in the year	£000	£000
opening deficit in the scheme	(17,661)	(24,812)
current service cost	(1,339)	(1,490)
contributions	2,448	2,442
net financing charge	(364)	(386)
actuarial gain	11,675	6,585
closing scheme deficit	<u>(5,241)</u>	<u>(17,661)</u>
Seaton Valley & Allendale Society pension surplus	53	53
total deficit	<u>(5,188)</u>	<u>(17,608)</u>
reconciliation of present value of scheme liabilities	£000	£000
opening defined benefit obligation	98,885	102,970
service cost	1,339	1,490
interest cost	2,070	1,633
contributions by employees	684	707
actuarial gain	(33,332)	(4,605)
benefits paid	(3,260)	(3,310)
closing defined benefit obligation	<u>66,386</u>	<u>98,885</u>
reconciliation of present value of scheme assets	£000	£000
opening fair value of the scheme assets	81,277	78,211
expected return	1,706	1,247
actuarial (loss)/gain	(21,657)	1,980
contributions by employer	2,448	2,442
contributions by employees	684	707
benefits paid	(3,260)	(3,310)
closing fair value of the scheme assets	<u>61,198</u>	<u>81,277</u>
analysis of the fair value of scheme assets at the balance sheet date was as follows	£000	£000
equities	32,486	38,739
other	(9)	3,353
asset backed funding arrangement contribution	969	969
buy-in	11,660	16,093
liability driven investment	16,092	22,123
total market value of assets	<u>61,198</u>	<u>81,277</u>

In setting the expected return on the assets as at 28 January 2023, we have taken into account the yields on government bonds and quality corporate bonds and the advice of Mercer's in-house investment consultancy practice.

Notes to the Group Accounts

18. accounting for pension costs - continued

	2022-23 £000	2021-22 £000
amounts taken to the consolidated statement of comprehensive income		
actual return less expected return on pension scheme assets	(21,657)	1,980
experience losses	(4,615)	(518)
changes in assumptions underlying the value of scheme liabilities	37,947	5,123
actuarial gain before tax adjustments	<u>11,675</u>	<u>6,585</u>

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

	2022-23 £000	2021-22 £000
operating profit	3,006	7,439
adjustment for		
gain on investment properties	(752)	(2,900)
profit on disposal of fixed assets	(765)	(386)
depreciation charges	9,098	7,999
amortisation of goodwill	1,847	1,856
(increase)/decrease in stocks	(584)	2,797
(increase)/decrease in debtors	(2,729)	3,432
increase in creditors and other provisions	158	1,370
movement in pension liability	(1,109)	(952)
share of subsidiary loss/(profit)	15	(10)
investment write-down	200	-
corporation tax paid	(786)	(373)
net cash inflow from operating activities	<u>7,599</u>	<u>20,272</u>

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

	2022-23 £000	2021-22 £000
(decrease)/increase in cash for year	(2,389)	1,098
cash (inflow)/outflow from change in net debt and lease financing	(6,546)	6,321
movement in net debt for the year	(8,935)	7,419
opening net debt	(16,922)	(24,341)
closing net debt	<u>(25,857)</u>	<u>(16,922)</u>

21. cash flow statement: analysis of net debt	at 29 January 2022 £000	cashflow £000	other non-cash changes £000	at 28 January 2023 £000
cash at bank and in hand	12,296	(2,389)	-	9,907
debt due after 1 year	(29,000)	(7,000)	2,000	(34,000)
debt due within 1 year	-	2,000	(2,000)	-
finance leases repaid	(218)	217	-	(1)
new finance leases	-	(1,763)	-	(1,763)
	(29,218)	(6,546)	-	(35,764)
total	(16,922)	(8,935)	-	(25,857)

22. operating lease commitments

	land & buildings	plant, vehicles & fixtures	land & buildings	plant, vehicles & fixtures
	2022-23 £000	2022-23 £000	2021-22 £000	2021-22 £000
leases which expire				
within one year	1,270	140	1,108	27
within two to five years	5,015	841	6,377	759
after five years	11,141	-	11,351	-
	17,426	981	18,836	786

At 28 January 2023 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)	14	(C) 2			(C) 3
Mr J Watson (VP)	12	2		(C) 2	
Mr A Clark Hutchison	12		3		
Mrs S Downie	12	1		2	
Mr I Gilchrist	13				3
Ms K Harmon	12				3
Mr K Kelly	13				3
Dr R McCready	12			2	
Mr D Paterson	13		3		
Mr M Ross	13	2	3		
Mr A Simm	12			2	
Mr E Thorn	12		(C) 3		
Total meetings held	14	2	3	2	3

Meetings held from 30 January 2022 to 28 January 2023

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

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

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

East Regional Committee		West Regional Committee		North Regional Committee	
Mr H Cairney (C) ◆★	8	Mr M Ross (C from 9/5/22)★▲	8	Mrs S Downie (C)	7
Mr D Paterson (VC)	7	Mr J Watson (VC)	6	Dr R McCready (VC) ★▲	8
Mr E Thorn (MS)	7	Ms M Nolan (MS)	5	Mrs S McSorley (MS)	7
Mr D Costello	7	Mr S Ballantyne	6	Ms E Farquhar	8
Mr A Clark Hutchison	5	Mr S Curran	7	Mrs J Garnes	6
Mr C Henderson ◆★	7	Mr I Gilchrist ★▲	8	Mr A Hutchison ★	5
Mr J Hendrie	7	Ms K Harmon	7	Mr A MacLeish (E 26/4/22)	8
Mrs N Hill (R 25/4/22)	2	Mrs M Kane ★	8	Mr D Patterson ★	7
Mrs L Hinds ★▲	6	Mr J Mills ◆	6	Ms E Pipe	8
Mr K Kelly	6	Mr G Randell	7	Mrs S Sandbach (E 26/4/22)	6
Mr J Mackenzie	8	Mrs K Scott ★	8	Mrs M Smith	6
Mrs R McCabe	8	Mr C Sim	8	Mr A Stokes (R 26/4/22)	1
Mrs J Reid (R 25/4/22)	2	Mr A Simm (C to 9/5/22)	6	Mrs D Taylor ★	1
Mr B Weddell ★▲	7	Mr D Simpson (E 25/4/22) ◆	6		
		Ms R Smith (R 25/4/22)	0		
Total meetings held	8	Total meetings held	8	Total meetings held	8

Meetings held from 30 January 2022 to 28 January 2023

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

- ▲ Regional Committee Members who have been nominated by their Regional Committee to stand for election to the Board and are eligible for election
- ★ Regional Committee Members whose terms of office will complete in at AGM 2023 and have been nominated to serve on a Regional Committee
- ◆ 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, Christopher Henderson and David Simpson co-opted to serve and they may attend either Regional Committee or Panel meetings.



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