

SCOTTISH MIDLAND
CO-OPERATIVE SOCIETY LIMITED

Interim Report

for the 26 weeks
ended 31 July 2021



Our core purpose:
To serve our communities
and improve people's everyday lives

Scotmid
COOP

Directors, Officers & Advisors

DIRECTORS

President

Harry Cairney

Vice President

Jim Watson

Andrew Clark Hutchinson

Sheila Downie

Iain Gilchrist

Kaye Harmon

Keith Kelly

Richard McCready

David Paterson

Michael Ross

Andy Simm

Eddie Thorn

MANAGEMENT EXECUTIVE

Chief Executive Officer

John Brodie

Chief Financial Officer & Secretary

John Dalley

Head of Food Retail

Kevin Plant

Head of Semichem

Karen Scott

Head of Property & Facilities

Maurissa Fergusson

Head of Innovation & Change

Stewart Dobbie

Head of People & Performance

Margaret Anne Clark

ADVISORS AND REGISTERED OFFICE

Independent Auditors

KPMG LLP

Bankers

HSBC UK Bank plc

Solicitors

Anderson Strathern WS

Registered Office

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

Directors' Report

**Our core purpose: To serve our communities
and improve people's everyday lives**



The Directors of Scottish Midland Co-operative Society are pleased to present their interim report to members.

In the 26 weeks ended 31 July the Society's trading profit was £3.1m, in line with the equivalent period last year, and turnover of £205.2m was £8.1m up. The Society's interim results last year were significantly impacted by the first Covid lockdown, including panic buying, extra Covid costs and closed Semichem stores, so caution is required when using 2020 as a base for comparison. However, encouragingly, our result is positive compared to the last pre-crisis interim result in 2019. The Society continues to benefit from a strong balance sheet with net assets of £104.4m.

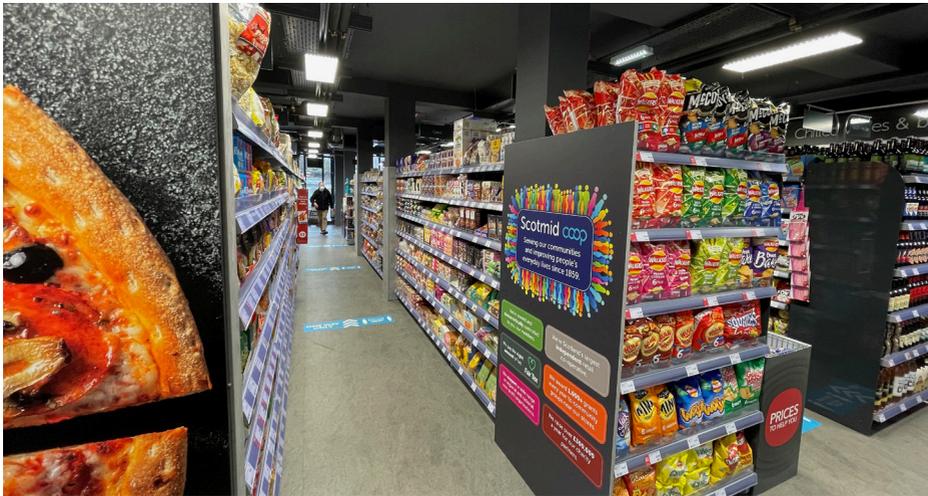
The crisis has resulted in an increase in local shopping for the Society's food convenience stores. As the pandemic carried on into 2021, this local shopping benefit reduced progressively, with no repeat of the panic buying experienced in Spring 2020. Semichem benefited from having stores open that were closed from late March to July in 2020. Footfall on the high street hasn't yet recovered to pre-crisis levels but Semichem maximised the sales opportunity available and was effective in the control of costs. Our Property business has shown resilience coming out of the worst stages of the crisis, Scotmid Funerals conducted fewer funerals in 2021 than the period that included the peak of the crisis in 2020.

Scotmid's Membership and Community activity continued to be impacted by Covid restrictions during the first half of 2021. The focus remained on the fulfilment of our core purpose through a community-based

response. As restrictions eased, we have taken a measured approach to return closer to the pre-pandemic service levels. Community Connect vote collection in-store has been re-instated and plans are in progress to hold the next OGM face-to-face. There are still constraints on some of Scotmid's charitable activities, so we are delighted that Society members, colleagues and customers had raised £120,000 for our charity hospice partners by the end of August 2021.

In our January 2021 year-end report, we highlighted the considerable planning uncertainty surrounding the timing of the end of the crisis and the likely post-pandemic impact once government support is withdrawn. With the hospitality sector now back and trading, we have seen some trading patterns moving back towards their pre-Covid position but there is still uncertainty with rising case numbers and the possibility of the re-imposition of restrictions. Our interim result demonstrates the Society's ability to adapt and respond positively as these new trading patterns emerged. However, there continues to be major challenges to face, like rising costs and the widespread disruption to supply chains and uncertainty of the impact once government support is fully withdrawn and all Covid trading constraints fall away. So, looking forward, the Society will continue to be flexible, focus on matters under our control, adapt our planning accordingly and continue to focus on our core purpose of serving our communities and improving people's everyday lives.

Directors' Report



Directors' Report



FOOD RETAIL

Covid lockdown restrictions were gradually eased during the first half of the year, but in Scotland the main restrictions weren't lifted until early August 2021. With consumers more accustomed to the impact of lockdown, our Scotmid stores didn't experience the same panic buying compared to the first national lockdown in March 2020. Once again, thanks to the dedication of colleagues, we kept all stores trading normal hours despite severe pressure on staffing due to track and trace. Our customers have been shopping less often but buy more on each visit, but this position is progressively trending back towards the pre-pandemic position with the customer count increasing and the average basket spend falling. There has also been some recovery in our city centre and tourist dependent stores which were hardest hit by working from home, hospitality and tourism restrictions.

In the summer months, we experienced major disruptions in the UK-wide supply chain as a result of a combination of issues

including a severe shortage of HGV drivers, staff shortages due to self-isolation and disruption caused by Brexit. Throughout this disruption Scotmid continued to utilise the Semichem distribution network and received important extra support from our local suppliers to supplement the national co-op network.

The programme of investment in the store estate has resumed after a pause in activity during the first lockdown last year. As well as a number of major refits, further investment was made in environmentally friendly fridges, digital screens and other equipment to support the development of our Food to Go offer. A new system for managing and reducing food waste has been rolled out to all our stores and a new labelling solution has been installed in advance of Natasha's Law which comes into effect later in the year. Our trials of Electronic Shelf Edge Labels have also shown positive results and plans are in place to deploy this equipment in more stores.

Above, top left and centre left: The Barnton store underwent a major refurbishment including new store frontage and complete internal refit. Centre right: A seasonal garden centre offering at our Uddingston Store. Bottom: The new instore Butchery counter at the Broxburn store.

Directors' Report



SEMICHEM

The first half of 2021 has proved to be another challenging period for the retail sector. However, unlike last year, Semichem continued to trade through the lockdown periods when most non-essential retail and hospitality was closed. Sales have steadily increased during the six months, with the phased easing of restrictions and the re-opening of non-essential retail. The Semichem teams have responded positively to this difficult trading environment, making the most of the sales opportunity available and controlling costs. This was the Society business that improved its trading performance the most in comparison to last year. Nevertheless, high street footfall remains a major challenge and in June, even after a number of restrictions had been eased, footfall in Scotland was still down 29.5% on 2019 pre-pandemic numbers. In this context, ongoing government support for high street retailers continues to be very important to help manage through the crisis. To help drive sales we took the opportunity to expand our range of pet products to respond to the increase in pet ownership during the pandemic. Similarly, we also increased homeware, outdoor toys and gardening products, but restrictions on

foreign travel have impacted our travel ranges including luggage and sun care. Product selection and availability remains a challenge in the current circumstances, not only with the impact of the pandemic but also Brexit and global issues with a shortage of materials. Brexit has caused several issues including costs increasing due to the shortage of shipping containers, delays at the docks and the lack of HGV drivers pushing transport costs and delays up. Northern Ireland has also been impacted by the new protocols for the transportation of goods from Great Britain, adding substantial cost and administration into our operation.

With the Covid pandemic accelerating the rise of internet shopping, some high streets are struggling to adapt to the pace of change in shopping habits. To help the long-term sustainability of the business we took the difficult decision to close 19 stores which were in locations that were no longer viable. Our priority during the closure process was providing support to affected colleagues both personally and professionally. Investment in the estate resumed in June (pictured above) with plans for more works in the second half of the year.

Directors' Report



PROPERTY

In the first half of the year, Scotmid's property business saw an encouraging recovery in property income. Last year was materially impacted by the first lockdown, but both commercial and residential rental income for this half year have been robust and recovered closer to normal levels more quickly than expected.

Commercial rental income benefited from fewer defaults and pandemic rent waivers and several new lettings were concluded in the period, including a further letting at our Drumnadrochit development. After a slow start, lettings activity in our residential portfolio has also recovered well.

Our major development of eight new flats above the new food store at Leven Street, Edinburgh (pictured above) was completed successfully. This development has had a positive impact on the Tollcross area of Edinburgh and the high-quality energy efficient flats let very quickly.

There is still uncertainty in some property sectors (e.g. high street retail and office) but in general, property markets have moved in a positive direction since last year. In particular, industrial property assets are in strong demand at present. Residential property valuations have continued to be supported by strong mortgage availability, low interest rates and increased household savings during the pandemic. The Society does not revalue its property portfolio at the interim stage but at present the prospects for our year end valuation look positive.



FUNERALS

Scotmid Funerals conducted fewer funerals in the first half of 2021 compared to the same period last year. Funeral numbers returned to a more normal level, unlike the first half of 2020 when we conducted a significant number of extra funerals in the first wave of Covid, but were unable to carry out the full wishes of families due to restrictions. However, the easing of the measures that limited the number of mourners and limousines has partly reversed this position. In these difficult times, our team of funeral colleagues have continued to provide the best funeral possible in memory of loved ones.

In contrast to the reduction in funeral numbers, as Covid restrictions eased, we have seen an increase in the number of "pre-need" funeral plans written. From 22nd July 2022, all funeral plan providers will be required to be registered with and regulated by the Financial Conduct Authority (FCA), and this comprehensive set of regulations will cover new plans and existing plans already written. Work has started for the Society to become an FCA authorised Appointed Representative working with a leading provider of funeral plans.

The focus on the continuous improvement of the facilities and service we offer to our clients continues. A themed funeral offering is being developed and our funeral software was upgraded to a new cloud-based funeral management system. In addition, two funeral homes were refreshed, and a new hearse and private ambulance were acquired.

Directors' Report



SOCIETY MATTERS & CENTRAL SUPPORT

Central support teams provide support to the Society's businesses and are responsible for Society-wide functions. A major focus was the support of all Society colleagues with their health and wellbeing, providing accessible resources on the internal and external support available. Central teams focused on supporting operational colleagues to manage the ongoing impact of the pandemic. Regular communication updates have ensured our colleagues have been fully informed of the key issues affecting them and support has been provided to manage flexible furlough, self-isolation and the resultant impact of increased absence levels, as well as to manage the increased demand for recruitment across the business. Support was also provided to a range of important business development projects including the Electronic Shelf Edge Labels trial (pictured above), Food to Go labelling, food waste reduction and "The Hive" (our new cloud-based platform for sharing data, task and documents). Extra investment has also been made in critical areas such as cyber security and the upgrade of our central IT infrastructure. Following the Society's commitment to the British Retail Consortium's Climate Change Roadmap, an expert is being recruited to drive the sustainability agenda and ensure

that Scotmid is focused on the areas where we can make the most impact.

The Society has small complementary diversification investments in Product Guru and The Start-Up Drinks Lab (SUDL). Both these local Scottish businesses have made good progress in 2021. Product Guru has further developed the functionality of its core platform that matches supplier products with retailers. SUDL has successfully focused on its core proposition as a one-stop drinks innovation facility. The Directors of SUDL and some marketing experts have set up another drinks business focused on the "hard seltzer" market. This product category grew rapidly in the USA and is gaining traction in the UK. In July, the Society completed a minority stake investment in The Alcoholic Water Company, as a co-investor with Scottish Enterprise.

The Society's surplus before tax at the half year was £1.5m, in-line with the 2020 interim result. Compared to the year-end, the Society's net asset base at the interim stage rose (pre-tax, pension and property revaluation) to £104.4m, net debt reduced by £9.6m, supported by a positive trading result, a £2.4m stock reduction and a number of favourable phasing/timing differences.

Directors' Report



Above left: Membership Manager, Kirsty Connell and Society President, Harry Cairney promoting the 'virtual' Kilt Walk. Above right: Committee Members featured in a series of social media posts to support Fairtrade Fortnight.

MEMBERSHIP & COMMUNITY

Consistent with our core purpose, the Society has continued to deliver a community-based response to the pandemic, through the community grant scheme and a variety of other projects. A donation to St Andrews First Aid, Scotland's only dedicated first aid charity, will cover the cost of kit for new volunteers as they campaign for more members. A donation to DFC Community Trust will allow the Trust to improve the emotional and mental well-being of individuals in the community with a new listening service. Emergency services and school teams across our communities received gifts from the Society on National Thank You Day and during Fairtrade Fortnight. The #shareasmile campaign during Our Communities Care week encouraged us to make others laugh with our best jokes.

With some temporary changes to comply with the pandemic restrictions, we have continued to operate our Community Connect scheme and twelve good causes shared £84,000 of Community Connect funding as part of AGM 2021. As restrictions have been eased, we have re-instated Community Connect vote collection in-store and member voting for good cause groups will be in operation again at the OGM in September.

The Society joined nine other retail co-ops across the UK to provide emergency supplies (£100,000) to communities in India affected by Covid, via the Self Employed Woman's Association (SEWA). Scotmid and other societies proudly supported celebrations of Robert Owen's 250th birthday, Owen's work led to the formation of co-operatives, mutuals, trade unions, building and friendly societies. Colleagues continue to find innovative and inclusive ways for members, colleagues and customers to fundraise, including participation in virtual physical challenges like The Kiltwalk.

The Society's members, colleagues and customers have fundraised £120,000 in the first half of our charity partnership with Children's Hospices Across Scotland (CHAS) in conjunction with Northern Ireland Children's Hospice, Jigsaw and St Oswald's Hospice. The funds raised will enable vital development and expansion of outreach services.

APPRECIATION

The Directors would like to thank our members, customers and colleagues for their support over the last six months.

Signed on behalf of the Directors

Harry Cairney, President

Jim Watson, Vice President

The Society in Focus



Above: The Society supported Project Rise, helping to provide support to shoplifters to prevent re-offending.
Below: The 2021 AGM was held as an all on-line event due to Covid restrictions.



The Society in Focus



Above: Society staff restarted fundraising for our charity partners, including colleagues from Coupar Angus climbing Ben Nevis.



Above left: To celebrate #thankyouday our elected members made surprise deliveries to some of those we are thankful for within our local communities.

Left: The Society donated vouchers to Uddingston Pride to purchase plants, flowers for #haveagrowday.

Above: The Society was awarded the Fair Tax mark for the 6th consecutive year.

Interim Statement of Group Trading Activities

	31 July 2021 £000	25 July 2020 £000
Turnover	205,172	197,109
Profit		
Trading profit	3,075	3,084
Exceptional items	(930)	(492)
Operating Profit	2,145	2,592
Net finance charges	(291)	(738)
Surplus before distributions	1,854	1,854
Share interest/grants and donations	(311)	(342)
Surplus before taxation	1,543	1,512
Net Assets		
Fixed assets	173,768	172,213
Net current assets	(482)	7,800
Long term liabilities	(43,451)	(51,086)
Provisions for liabilities and charges	(480)	(306)
Pension liability	(24,978)	(22,046)
Net assets	104,377	106,575
Cash Flow		
Inflow from operating activities	14,221	8,348
Net interest, grants and donations	(383)	(890)
Corporation tax payment	(236)	(591)
Capital expenditure/acquisitions	(4,127)	(2,479)
Proceeds from sale of fixed assets	176	310
Decrease in members' share capital	(19)	(14)
Reduction in net debt	9,632	4,684
Net Debt		
Opening net debt	(24,341)	(25,369)
Reduction in period	9,632	4,684
Closing net debt	(14,709)	(20,685)

NOTES TO THE INTERIM STATEMENT

- The financial information does not constitute statutory accounts and is not audited.
- Turnover includes cash sales, goods sold on credit and property rental income exclusive of value added tax, funeral disbursements and discounts. Investment properties revaluation adjustments are made annually at the year end. A property revaluation is not undertaken for the interim results. Pension revaluation adjustments are made annually at the year end and consequently are not reflected in the interim statement. No provision has been included in the net assets statement for any possible tax charge, either current or deferred, which may arise in the current year.

Notice of Meeting & Agenda of Business

Notice is hereby given that an Ordinary General Meeting of the Society will be held on **Monday 27 September 2021 at 6.30pm in:**

The Hermiston Suite, Novotel Edinburgh Park, 15 Lochside Ave, Edinburgh, EH12 9DJ and Double Tree by Hilton, Strathclyde Business Park, Phoenix Crescent, Bellshill, ML4 3JQ

and on Tuesday 28 September 2021 at 6.30pm in:

The Aberdeen Altens Hotel, Souterhead Road, Aberdeen, AB12 3LF

AGENDA OF BUSINESS

- Community Connect presentations and voting
- Minutes of Annual General Meeting held on 26 April 2021
- Nominations for Regional Committees:
 - East Regional Committee:** 4 Members to serve for 3 years
 - Seaton Valley area:** 1 Member to serve for 3 years
 - North Regional Committee:** 4 Members to serve for 3 years
 - West Regional Committee:** 3 Members to serve for 3 years; and 1 Member to serve for 2 years
 - Penrith area:** 1 Member to serve for 3 years
- Directors' Report/Interim Accounts
- Elected Members Loyalty Bonus Scheme
- Remuneration and other Fees, Delegations and Attendance payments:
Present Scale: Day Payment £115; Part Day Payment £73; Attendance Payment: £42
- Membership, Community and Charity Report
- Any other competent business

ADMISSION TO GENERAL MEETING

If you have been a Member for 6 months or more and wish to attend the meeting please complete the registration form on the Society's website or telephone 0131 335 4433. Members who joined by 27 June 2021 and wish to attend the Community Connect presentations, cast their votes and observe the remainder of the OGM should also register to attend the meeting. If you plan on attending the meeting and would prefer the Chairman to ask a question on your behalf, you may submit your question in advance of the meeting in writing, by telephone or via the Society's website. The deadline for registration for the meetings is Monday 20 September 2021 at 9.00am.

Members will be admitted to the General Meeting by presenting their admission ticket and Share Book or Community Connect card. All meetings will start promptly at 6.30pm for Community Connect presentations and voting and at 7.00pm for the remainder of the OGM. To ensure there are no disruptions late entry will not be permitted until the Community Connect voting has concluded or after 7.00pm.

The next General Meeting (Annual General Meeting) will be held on Monday 25 April 2022 at Edinburgh and Bellshill and on Tuesday 26 April 2022 in the North Region.

Board Members

The following tables show the number of meetings attended by each member of the Board or Committee compared to the total number of meetings held in the period (shown at the bottom of each table). Meetings held from 31 January 2021 - 31 July 2021.

Board Directors	Board Meetings	General Purposes	Audit	Remuneration	Search
Mr H Cairney (P)	9	2 (C)			2 (C)
Mr J Watson (VP)	9	2		1 (C)	
Mr A Clark Hutchison	6		2		
Ms S Downie	9	2			1
Mr I Gilchrist	9				2
Mrs K Harmon	7				2
Mr K Kelly (E 26/4/21)	4				1
Dr R McCready	9			1	
Mr D Paterson	9		2		
Mr M Ross	8		2		
Mr A Simm	9	2		1	
Mr E Thorn	9		2 (C)		
Total Meetings Held	9	2	2	1	2

Key: P - President, VP - Vice President, C - Board Committee Chair, E - Elected

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.

Regional Committee Members

East Regional Committee		West Regional Committee		North Regional Committee	
Mr H Cairney (C)	5	Mr A Simm (C)	4	Mrs S Downie (C)	4
Mr D Paterson (VC) ◇	5	Mr J Watson (VC) ◇	4	Dr R McCready (VC 10/5/21)	4
Mr E Thorn (MS) ◇	5	Mr M Ross (MS)	4	Mr A Cullen •	2
Mr A Clark Hutchison ◇	5	Mr S Ballantyne	4	Mrs S McSorley (MS) ◇	4
Mr C Henderson	4	Mr S Curran	4	Ms E Farquhar	4
Mrs N Hill	4	Mr I Gilchrist	4	Mrs J Garnes	3
Mrs L Hinds	5	Ms K Harmon ◇	4	Mr A Hutchison	4
Mr K Kelly	5	Mrs M Kane	4	Mr D Patterson	4
Mr J Mackenzie ◇	5	Ms M Nolan ◇	4	Ms E Pipe ◇	4
Mrs R McCabe	5	Mr J Mills	3	Mrs M Smith	4
Mr B Pottinger	5	Mr G Randell	4	Mr A Stokes ◇	4
Mrs J Reid	5	Mrs K Scott	4	Mrs D Taylor	4
Mr B Weddell (E 26/4/21)	4	Mr C Sim ◇ (E 26/4/21)	2		
		Ms R Smith Δ	2		
Total Meetings Held	5	Total Meetings Held	4	Total Meetings Held	4

Key: C - Committee Chair, VC - Vice Committee Chair, MS - Minute Secretary, T - Treasurer, R - Retired, E - Elected

◇ Regional Committee Members whose terms of office will complete at AGM 2022 and have indicated that they will seek nomination to serve a further term of office.

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

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

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



Scotmid 

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