

SCOTTISH MIDLAND  
CO-OPERATIVE SOCIETY LIMITED

# Interim Report

for the 26 weeks  
ended 25 July 2020



**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

Sheila Downie

Iain Gilchrist

Kaye Harmon

Richard McCready

John Miller

David Paterson

Michael Ross

Andy Simm

Grace Smallman

Eddie Thorn

Sandra Williamson

## MANAGEMENT EXECUTIVE

### Chief Executive Officer

John Brodie

### Chief Financial Officer & Secretary

John Dalley

### Head of Innovation & Change

Stewart Dobbie

### Head of Property & Facilities

Maurissa Fergusson

### Head of People & Performance

Steve McDonald

## 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 25 July the Society's trading profit was £3.1m, 25% up on the equivalent period last year, and turnover of £197.1m was £6.7m up. This result was heavily influenced by changes in consumer behaviour as a result of the COVID-19 pandemic. The Society's balance sheet strengthened at the half year as we took a prudent approach to prepare for challenges we are likely to face in the second half of the year.

The Society adapted quickly to the new ways of trading/working during the pandemic and this was achieved for our diverse set of businesses. Our Food convenience business benefitted from more customers choosing to shop locally. Our front-line colleagues, support teams and supply chain came through the most challenging of circumstances to respond to the unprecedented demand levels, sickness and social distancing requirements to continue to serve our communities. In contrast all our Semichem stores were closed for an extended period so its result was significantly down at the interim stage. The Semichem distribution network did however provide support to the Food business when sourcing product through normal channels became problematic. Property income came under pressure and our Funeral colleagues went the extra mile in adversity to provide the best service possible, in adherence with Government guidance.

Scotmid's Membership and Community activity in the period was focused on the

fulfilment of our core purpose through the Society's community-based response to the pandemic. Since March, we have responded to hundreds of calls for support from groups facing significant challenges in the wake of COVID-19 and donated more than £160,000 to alleviate hardship through a Covid Community Fund. We also worked with our charity partner, Chest Heart and Stroke Scotland, to provide a free home delivery service to those shielding. Society governance was also adapted effectively to ensure that our democracy could continue to operate effectively during the lockdown.

In our January 2020 year-end report, we highlighted the importance of our continuous improvement philosophy to help guide the Society through the considerable challenges faced from global events, particularly COVID-19. In this financial year-to-date the Society has successfully applied this approach serving our communities in their time of need. We have responded in a timely but measured way to the new COVID-19 world but have been flexible, learning from the outcomes and adapting plans accordingly. This, however, is only the starting point because as Government support is withdrawn, the recession is likely to be prolonged, not helped by the uncertainty caused by the Brexit transition. Looking forward to an uncertain second half of the year, it is more important than ever for the Society to focus on matters under our control and deliver our core purpose of serving our communities and improving people's everyday lives.

# Directors' Report



# Directors' Report

## FOOD RETAIL

The first half of 2020 started slowly with poor weather affecting Food sales but trading patterns were transformed after COVID-19 took hold in the UK. Our Food stores adapted rapidly to the lockdown implementing social distancing measures and new ways of working. Our frontline store colleagues rose magnificently to the significant challenges in the initial stages of the crisis. During a time of high sickness levels with many colleagues required to self-isolate all stores were kept open and serving our communities.

Positive feedback from our communities has been overwhelming in appreciation for the store teams. Stores worked with local voluntary groups and our charity partner's Kindness Volunteers to safely deliver groceries to people's doorsteps. During all of this, we also extended the number of stores offering the on-line Snappy Shopper service as the demand for deliveries increased significantly. More recently, Snappy shopper was also launched in our Edinburgh stores.

In common with all other retailers, our co-operative buying group (FRTS) were unable to source sufficient stock to meet the unprecedented "panic buying" from consumers at the start of the lockdown. This increased demand, combined with the impact of social distancing measures on manufacturing premises, resulted in disruption to the supply to our stores. However, we quickly mobilised the Semichem distribution network and received

vital support from our local suppliers to supplement the national co-op network.

After the peak of the crisis, store trading has settled into a more consistent "new normal" pattern with a reduced frequency of visits but a bigger basket spend. In common with other convenience store retailers we have seen the benefit of customers shopping locally which has resulted like-for-like sales growth ahead of the overall Food retail figures reported by the Scottish Retail Consortium. Although most of our stores recorded sales growth, stores in city centres or with a high reliance on food-to-go had a reduction in trade. The business also had to absorb a significant increase in costs as a result of the pandemic together with the ongoing impact of rising employment costs.

The programme of investment in the store estate was paused during the lockdown. As a result only two refits and eleven "Scotmid Coop" rebrands could be completed in the six month period. The main focus switched to supporting the safe use of the stores by staff and customers through provision of additional equipment (e.g. plastic till screens), signage (e.g. floor graphics) and other temporary changes to assist with social distancing. Extra investment was also made to accelerate and complete the rollout of mobile printers and headsets which were well received by our store teams improving both communication and colleague safety.



# Directors' Report

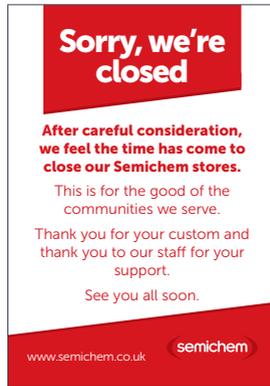
## SEMICHEM

This has been a particularly challenging six months for the Semichem business, after an encouraging start, helped by customers stocking up for the pandemic there was an instant impact on high street footfall when lockdown was announced in March. At that time the Government categorised our stores as non-essential, so this position together with the economic impact on the high street led to the decision to close the Semichem stores. By the time the Government changed the categorisation we had closed all the stores. Clearly this had an enormous impact on Semichem's interim result with stores closed for 10 weeks or more during the period. All the store teams were placed on the Government's Job Retention Scheme including the majority of the central support and distribution team.

The Semichem central support and warehouse team that were not furloughed continued working to provide an invaluable service for other parts of the Society,

particularly our Food convenience stores. Product that was in high demand (e.g. antibacterial wipes, hand sanitiser, hand wash), medicines and some food and health & beauty products were distributed to our Scotmid Food stores. Products that the Food stores were unable to get from the Co-op supply chain were also sourced, using the warehouse for storage. In addition, the Semichem warehouse and distribution service was used as a hub for some of the Society's important work with foodbanks, charities and community groups during the crisis.

After lockdown and the gradual lifting of restrictions, the Semichem stores were prepared for re-opening with social distancing and staff safety measures put in place. Stores were re-opened on a phased basis starting in June, with all stores open by the third week of August. We are encouraged by the initial trade, however it has some way to go to recover to pre-COVID levels.



## FUNERALS

Scotmid Funerals conducted more funerals in the first half of 2020 compared to the first half last year. This was mainly due to a significant increase in funeral numbers resulting from COVID-19. Safety measures limiting the number of mourners and the temporary withdrawal of certain funeral services (e.g. the provision of limousines) contributed to a fall in the average price paid for funerals. Nevertheless our dedicated and compassionate team of funeral colleagues continued throughout the peak of the crisis to provide the best funerals possible in memory of loved ones who had passed away. The Society backed this up with an investment in additional mortuary and

storage facilities to ensure that our quality of care was not compromised as result of the pandemic.

The Society provides funeral plans individually tailored to family requirements. We wrote more Scotmid funeral plans at the start of the year, with the benefit of a special discount offer for our 160th anniversary, but when the lockdown came into place our sales decreased. HM Treasury have decided that the sales of funeral plans should be regulated by the Financial Conduct Authority, the decision on the level of regulation will be made within the next two years

# Directors' Report



## PROPERTY

The COVID-19 pandemic has resulted in a reduction in income from Scotmid's property business in our interim results.

The economic impact of lockdown on the economy from March is unprecedented with many industries experiencing an abrupt and dramatic fall in demand. Sale and lettings transactions in the property industry largely stopped for three months due to the market being prevented from functioning in the normal manner for viewings and surveys. Sectors that have been adversely impacted by the lockdown and the economic recession have pressed property landlords for help with rent concessions.

Consistent with the market position, it was our commercial rental income that was hardest hit with a number of commercial tenants forced to close during lockdown. However, with most quarterly rents payable in advance (Scottish rent quarter to the end of May) and the benefit of our longstanding diversification strategy there were some mitigating factors that applied to the Scotmid portfolio in the first half of our financial year. Given the exceptional nature of the crisis the Society also decided to assist many of our commercial tenants with tailored plans of support.

In contrast, residential rental income proved relatively resilient during the period. There

was a spike in voids from tenants leaving (and not being replaced) during the market closure period but void numbers reduced back to more normal levels relatively quickly when the pent-up demand was released.

Development work continues on sites in Edinburgh (8 flats above the refurbished Scotmid store at Leven Street, pictured above) and Bo'ness (2 neighbourhood retail units adjacent to the redeveloped Scotmid store). Both projects have been unavoidably delayed by the lockdown.

Looking forward, the pressure on commercial property is likely to increase as Government support schemes are withdrawn and the business failure rate increases. There is also potential for additional uncertainty for property markets due to the Brexit transition in December. If increased working from home for office based roles remains a long-term trend this could result in a lasting change to the pattern of demand for offices and commercial property serving city centres and employment areas. These factors mean there is more uncertainty than usual over the outcome of the annual revaluation of the Society's investment property portfolio due at the end of January 2021.

# Directors' Report



## SOCIETY MATTERS & CENTRAL SUPPORT

Central teams continued to provide support for the Society's businesses but from March onwards most of the work was impacted by the pandemic with the office based teams switching to home working. The Society rapidly moved to create a secure solution to enable colleagues working remotely to continue to support the front-line teams in our stores and funeral homes.

A key focus for the central teams was the welfare of front-line colleagues. Support provided ranged from regular communication updates, new e-learning material (including mental health support), helping employees and line managers through the initial stages of shielding and furlough. A fast track recruitment system was implemented to help bring in temporary cover for our self-isolators and sickness to make sure that the stores could continue to function. There were specific challenges arising from social distancing and the compulsory wearing of masks. Extra resource was deployed to provide a higher visibility store security presence to manage the initial spike in criminality during the lockdown. The crisis has emphasised importance of the protection of store colleagues from violence and letters were sent to our local MSPs reinforcing the Society's support for the proposed Protection of Shop Workers Bill, in the Scottish Parliament. The "Make it Simple" programme to simplify and automate store

processes was also accelerated in response to the lockdown with new Wi-Fi Reduced to Clear printers and colleague headsets provided to all Food stores.

The Society has a small "complementary diversification" investment in Product Guru which is a start-up business providing an on-line service to match supplier products with retailers. During lockdown some of the normal channels for supplier/retailer interaction have been restricted (e.g. trade shows) so this has encouraged the consideration of on-line alternatives like the service provided by Product Guru. In recognition of this opportunity Scotmid has decided to make another investment in Product Guru alongside an external technology investment fund to help accelerate the development of the concept. The Start-Up Drinks Lab scaled back its operation in response to the lockdown but provided valuable support to the Society by bottling bulk sanitiser for us at the peak of the crisis.

The Society's surplus before tax at the half year was £1.5m, £0.35m down on 2019. Last year's interim result was boosted by a one-off gain on sale within exceptional items. The Society's net asset base grew to £106.6m (before tax and pension revaluation) and positive cash flow was generated in the first half of the year to reduce net debt by £4.7m.

# Directors' Report



Above left: The Society provided home delivery services in conjunction with CHSS Kindness Volunteers.

Above right: The Society donated £80,000 to Pancreatic Cancer UK. Opposite Page: Central teams were involved in the continued rollout of the Snappy Shopper service.

## MEMBERSHIP & COMMUNITY

Consistent with our core purpose, the Society has delivered a community-based response to the pandemic, with both innovative support projects and funding. Since March 2020, we have responded to hundreds of calls for support from groups facing significant challenges in the wake of COVID-19. We have donated more than £160,000 through a Covid Community Fund set up to help alleviate hardship. As well as donations totalling £45,000 to over 300 community-based groups and charities, we have made major donations including £45,000 to Fareshare to support foodbanks, £25,000 to Retail Trust to improve the emotional, physical, vocational and financial wellbeing of all involved with retail, £25,000 to Project Wingman, £10,000 to Social Bite and £10,000 to bereavement support charities.

Another initiative during the crisis was Scotmid's Customer Support Service, a project in partnership with our charity partner Chest Heart & Stroke Scotland, providing a free home delivery service to those shielding. CHSS Kindness Volunteers worked with store teams to safely deliver groceries to people's doorsteps.

The Society's members, colleagues and

customers have fundraised £130,000 in first half of the charity partnership year with Chest Heart & Stroke Scotland, Chest Heart & Stroke Northern Ireland and Different Strokes, North of England.

Scotmid is supporting work by Scotland's next generation of pancreatic cancer research scientists with a donation of £80,000 to Pancreatic Cancer UK. The funding will be invested in the charity's Future Leaders Academy based at The Beatson Institute in Glasgow, where PhD students are investigating how pancreatic cancer grows, spreads and defends itself against current treatments, with the aim of making desperately needed research breakthroughs.

## 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 Wingman, helping to provide refreshments for NHS staff in first class style lounges across Scotland.

Below: The Society donated £7,500 to Cruse Bereavement Care Scotland to support their helpline and one-to-one support services.



# The Society in Focus



Above: The Society were awarded the Fair Tax mark for the 5th consecutive year.



Above: Donations of essentials were given to hospitals across Scotland.



Above right: Community support groups were given funding across the country.



Right: The Society thanked key workers for their support in caring for our communities with treat hampers.

# Interim Statement of Group Trading Activities

	25 July 2020 £000	27 July 2019 £000
<b>Turnover</b>	197,109	190,440
<b>Profit</b>		
Trading profit	3,084	2,476
Exceptional items	<u>(492)</u>	<u>364</u>
Operating Profit	2,592	2,840
Net finance charges	<u>(738)</u>	<u>(660)</u>
Surplus before distributions	1,854	2,180
Share interest/grants and donations	<u>(342)</u>	<u>(313)</u>
Surplus before taxation	<u>1,512</u>	<u>1,867</u>
<b>Net Assets</b>		
Fixed assets	172,213	167,963
Net current assets	7,800	7,686
Long term liabilities	(51,086)	(50,716)
Provisions for liabilities and charges	(306)	(559)
Pension liability	<u>(22,046)</u>	<u>(19,490)</u>
Net assets	<u>106,575</u>	<u>104,884</u>
<b>Cash Flow</b>		
Inflow from operating activities	8,348	6,613
Net interest, grants and donations	(890)	(719)
Corporation tax payment	(591)	(300)
Capital expenditure/acquisitions	(2,479)	(3,202)
Proceeds from sale of fixed assets	310	1,476
Decrease in members' share capital	<u>(14)</u>	<u>(10)</u>
Reduction in net debt	<u>4,684</u>	<u>3,858</u>
<b>Net Debt</b>		
Opening net debt	(25,369)	(29,433)
Reduction in period	4,684	3,858
Closing net debt	<u>(20,685)</u>	<u>(25,575)</u>

## NOTES TO THE INTERIM STATEMENT

- 1.The financial information does not constitute statutory accounts and is not audited.
- 2.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 the Annual General Meeting of the Society will be held online on Monday 28 September 2020 at 7.00pm .

## AGENDA OF BUSINESS

1. Community Connect Awards 2020
2. Meeting Scrutineer
3. Synopsis of Minutes of Ordinary General Meetings held on 30 September and 1 October 2019
4. Synopses of Minutes of Board Meetings.
5. Directors Remuneration: Fees, Delegations and Attendance payments:  
Present Scale Day Payment £113; Part Day Payment £72; Attendance Payment: £41
6. Board Retirements
7. Board Elections:  
**East Region:** 2 Members to serve for 2½ years  
**North Region:** 1 Member to serve for 2½ years  
**West Region:** 2 Members to serve for 2½ years
8. Regional Committee Elections:  
**East Region:** 4 Members to serve for 2½ years; and 1 Member to serve 7 months  
**Lakes & Dales Seaton Delaval area:** 1 Member to serve for 2½ years  
**North Region:** 4 Members to serve for 2½ years  
**West Region:** 4 Members to serve for 2½ years
9. Regional Committee Nominations:  
**East Region:** 3 Members to serve for 3 years; and 1 Member to serve for 2 years  
**Lakes & Dales Seaton Delaval area:** 1 Member to serve for 3 years  
**North Region:** 4 Members to serve for 3 years  
**West Region:** 4 Members to serve for 3 years and 1 Member for 1 year  
**Lakes & Dales Penrith area:** 1 Member to serve for 3 years
10. Directors' Report/Annual Accounts
11. Community response to Covid-19
12. Any Other Competent Business

## ADMISSION TO GENERAL MEETING

To attend the AGM you must have been a Scotmid Member for at least six months and have registered to attend.

The next General Meeting (Annual General Meeting) will be held on Monday 26 April 2021 at Edinburgh and Hamilton and on Tuesday 27 April 2021 in Aberdeen.

# 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 26 January 2020 - 25 July 2020.

Board Directors	Board Meetings	General Purposes	Audit	Remuneration	Search
Mr H Cairney (President) *	7	2 (C)			2 (C)
Mr J Watson (Vice President)	7	2		1 (C)	
Ms S Downie	7	2			2
Mr I Gilchrist.*	7				2
Mrs K Harmon	7				2
Dr R McCready	7			1	
Mr J Miller †	7			1	
Mr D Paterson	7		2		
Mr M Ross *	7		2		
Mr A Simm	7	2		1	
Mrs G Smallman (R 30/4/2020) •	2			1	
Mr E Thorn	7		2 (C)		
Miss A Williamson †	7	1	2		
<b>Total Meetings Held</b>	<b>7</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>2</b>

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

\* Directors whose term of office will complete at AGM 2020 and have been re-nominated to serve.

• Grace Smallman, Director and East Regional Committee member retired on 30 April 2020 with the thanks of the Society.

† John Miller and Sandra Williamson, Directors and East Regional Committee members will retire on 28 September 2020 with the thanks of the Society.

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

John Brodie is a Director of The Start Up Drinks Lab.

# Regional Committee Members

East Regional Committee		West Regional Committee		North Regional Committee	
Mr H Cairney • ◇	4	Mr A Simm (C )	4	Mrs S Downie (C)	4
Mr D Paterson •	4	Mr J Watson (VC)	4	Mr A Cullen (VC)	3
Mr E Thorn •	4	Mr M Ross (MS) ◇	4	Mrs M Smith (MS)	4
Mr A Clark Hutchison Δ	4	Mr S Ballantyne	4	Ms E Farquhar	4
Mr C Henderson ◇	3	Mr S Curran	4	Mrs J Garnes	4
Mrs N Hill	3	Mr I Gilchrist ◇	4	Dr R McCready ◇	4
Mr K Kelly ◇	4	Mr J Gilchrist ‡	2	Mrs S McSorley	4
Mr J Mackenzie Δ	3	Ms K Harmon	4	Mr D Patterson ◇	4
Mrs R McCabe Δ	4	Mrs M Kane ◇	4	Ms E Pipe	4
Mr J Miller	4	Mr J Mills	4	Mr A Stokes	4
Mrs J Reid ◇	4	Ms M Nolan	3	Mrs D Taylor ◇	2
Mrs G Smallman	1	Mr G Randell	4		
Miss A Williamson •	4	Mrs K Scott ◇	4		
		Ms R Smith	3		
Total Meetings Held	4	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

Δ 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 2020 and have been nominated to serve on a Regional Committee.

• On 7 May 2020 the East Regional Committee elected Harry Cairney to replace Sandra Williamson as Committee Chair; David Paterson replaced Harry Cairney as Vice Chair and Eddie Thorn replaced David Paterson as Minute Secretary. The Committee thanked Sandra for her service as Committee Chair.

‡ On 27 April 2020, Jim Gilchrist, former Director, Treasurer and Member of the West Regional Committee retired with the thanks of the Society.



Scotmid 

**OUR CORE PURPOSE:**

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

[www.scotmid.coop](http://www.scotmid.coop)

Scottish Midland Co-operative Society Limited,  
Hillwood House, 2 Harvest Drive, EH28 8QJ